

## Chapter 2

# General Institutional Responsibilities

### Summary

This chapter discusses the broad range of responsibilities of schools participating in Title IV student financial aid programs (Title IV programs). It presents information about institutional fiscal operations and network of responsibilities, institutional eligibility, financial responsibility, administrative capability (including separation of functions), and other areas such as consumer information, institutional policies and procedures, program evaluation, refunds and repayments, record maintenance, and disclosing student information.



### Key Terms

Access America for Students	Modernization Blueprint
administrative capability	net income ratio
Campus Security Act	primary ratio
composite score	Project Easy Access for Students and Institutions (EASI)
data universal numbering system (DUNS)	refund
equity ratio	repayment
Family Education Rights and Privacy Act (FERPA)	return of Title IV funds
financial responsibility	Student Right-To-Know Act
leave of absence	unearned aid
	withdrawal date

## 2.1 Overview of Fiscal Operations and the Network of Responsibilities

The term “fiscal operations” encompasses a broad range of processes. For the Title IV programs, these include, but are not limited to:

- requesting funds from the federal government,
- disbursing funds to eligible students and parents,
- keeping accurate and auditable financial records,

- managing cash,
- accounting for funds and financial activities, and
- reporting on these activities.

Schools organize and manage their fiscal operations differently, depending on such factors as the size of the school administrative structure, staffing, automation, and federal program participation. Although fiscal operations can vary from school to school, successfully managing Title IV programs at any school depends on coordinated efforts across institutional offices. To illustrate this network of responsibilities, consider the relatively routine activity of managing Federal Work-Study (FWS) time sheets for student employees. Your process probably demonstrates the interdependence of various offices at your school, as completing the FWS questionnaire on the next page will show you.

Coordination has become increasingly important as automated systems have replaced paper-based ones. Automated systems bring many benefits, such as enhanced data integrity and speedy data exchange. However, they also present challenges; the most critical, perhaps, is that automation can blur responsibility for functions that must be kept separate, such as awarding and disbursing financial aid awards. The American Institute of Certified Public Accountants provides guidance on these and other management, accounting, and auditing issues.

**Reference:**

- [www.aicpa.org](http://www.aicpa.org)

### ***Managing Title IV Programs***

Managing Title IV financial aid is an institution-wide responsibility. The entire school benefits from the Title IV programs. Therefore, all offices at a school need to work together. However, managing Title IV programs includes three main functional areas:

- the president's office,
- the financial aid office, and
- the business (bursar's) office.

As mentioned earlier in this chapter, schools differ in how they divide these functions among administrative offices. However, the president's office, the financial aid office, and the business office always play key roles.

## Network of Responsibilities—FWS Questionnaire

The Federal Work-Study (FWS) time sheet requires an oversight signature.

- Who is authorized to sign and certify that a student's work was performed in a satisfactory manner? \_\_\_\_\_

Students must remain eligible from one term to the next.

- Who monitors student eligibility and academic progress? \_\_\_\_\_

Some eligibility requirements are school policies.

- Who develops these policies for the school? \_\_\_\_\_

Students are paid their wages on the basis of their time sheets.

- Who collects the time sheets from students? \_\_\_\_\_
- Who processes the payroll? \_\_\_\_\_
- Who reconciles the payroll to the time sheets? \_\_\_\_\_

Students may only earn up to the amount of their authorized FWS awards.

- Who determines the amount of the award? \_\_\_\_\_
- Who monitors students' earnings to ensure that they do not earn in excess of that amount? \_\_\_\_\_

All schools are required to spend at least 7 percent of the federal allocation of their FWS funds to employ students in community-service positions.

- Who locates and develops these jobs? \_\_\_\_\_
- Who monitors the percentage of funds used for these jobs? \_\_\_\_\_

Student earnings are part of the institution's overall FWS budget.

- Who develops the budget? \_\_\_\_\_
- Who monitors expenditures? \_\_\_\_\_

Schools that receive FWS funds are required to apply for those funds and to report to ED on the use of those funds.

- Who completes the application? \_\_\_\_\_
- Who completes the report? \_\_\_\_\_

### The Administrative Office

Responsibility for overall administration resides with the school's president, chancellor, or chief executive officer (CEO). The leadership and management style of the person in this position sets the tone and direction of the financial aid program for the entire institution.

Although authority and responsibility is delegated to other offices, the leadership and support of the CEO/president are crucial to successfully administering Title IV programs. By recognizing the importance of federal aid programs, making Title IV program administration a high priority, and holding key officials accountable, CEO/president leadership can foster an environment that promotes an effective and responsive financial aid program that meets institutional goals, students' needs, and federal requirements.

The checklist on the next page lists the responsibilities of the CEO/president.

## The CEO/president must ensure that a school...

- ☐ is financially responsible to administer Title IV programs
- ☐ is administratively capable of administering Title IV programs
- ☐ has a capable individual to administer Title IV programs and coordinate federal and nonfederal financial aid programs
- ☐ has an adequate number of qualified staff to administer Title IV programs
- ☐ has established clear lines of responsibility among the pertinent school offices
- ☐ has good communication and cooperation among personnel in the pertinent school offices
- ☐ maintains effective record-keeping systems for both student records **and** financial records
- ☐ has an adequate system of checks and balances to ensure separation of award functions from disbursement functions
- ☐ has accurate information about student applicants for Title IV aid and resolves any discrepancies or inconsistencies
- ☐ provides adequate financial aid and debt management counseling to students
- ☐ refers any suspected cases of Title IV fraud, abuse, or misrepresentation to ED's Office of Inspector General (OIG)
- ☐ obtains a letter of credit (LOC)<sup>1</sup> (if the school has failed to meet the standards of financial responsibility)
- ☐ has an independent auditor perform an annual nonfederal audit of the school's Title IV financial operations<sup>2</sup>
- ☐ cooperates fully with any program reviews or audits and makes available all necessary information to the reviewers or auditors
- ☐ has no criminal or fraudulent activities occur as it manages federal funds **and** administers Title IV programs
- ☐ has established reasonable standards of satisfactory academic progress (SAP) for students
- ☐ has established a fair and equitable refund policy
- ☐ has an operable and accessible drug-abuse prevention program, as required by the Drug-Free Schools and Communities Act
- ☐ is a drug-free workplace, as required by the Drug-Free Workplace Act
- ☐ makes available all published information required by the Student Right-to-Know and Campus Security Act and any other pertinent laws and regulations
- ☐ provides the services described in its publications

1. This is an ED requirement. A school would obtain the LOC from a bank or other financial institution in the amount of a specific percentage of the school's last year's Title IV program drawdown. If it is a new school, the LOC would be in the amount of the estimated/anticipated Title IV program drawdown. The LOC would be payable to ED, and ED would draw on the LOC if there is cause. While the school may contest ED's action to draw LOC funds, ED gets to hold these funds while the school protest is processed. Although ED no longer requires that a school obtain a fidelity bond, the school may choose to obtain one as a good business practice to protect itself against improper actions of employees, board members, and so on.
2. If a school receives less than \$200,000 in Title IV funds annually in each of the two award years prior to the audit period, ED may authorize it to have audits every three years if the school submits a letter of credit for not less than one-half of its annual potential liabilities as determined by ED. In addition, schools that are subject to A-133 and have under \$300,000 in Title IV funds are completely exempt from an annual audit. However, if the schools have audited financial statements done for them, ED can ask for them.

### The Financial Aid Office

While a school's financial aid office assumes most of the responsibility for administering Title IV programs, its role in the institution's fiscal operation is usually a limited one. See the checklist below for a list of fiscal functions carried out by financial aid administrators.

#### A school's financial aid office must...

- ☐ advise and counsel students and parents about financial aid
- ☐ provide students with consumer information, as required by federal regulations
- ☐ develop written policies and procedures about the way the school administers Title IV programs
- ☐ determine students' eligibility for financial aid
- ☐ make financial aid awards to students
- ☐ coordinate financial aid activities with those of other school offices in administering financial aid programs
- ☐ interact with various outside groups, agencies, associations, and individuals about issues concerning the school's administration of financial aid programs
- ☐ monitor students' satisfactory academic progress (SAP)
- ☐ maintain school records **and** student records that document activities of the financial aid office and provide data for reports
- ☐ keep current on changes in laws and regulations to ensure that the school remains in compliance
- ☐ assist in reporting Pell Grant expenditures
- ☐ manage and report on activities that involve financial aid funds
- ☐ assist in reconciling loan records (for schools that participate in the Direct Loan Program)
- ☐ reconcile student financial aid data provided to the business office to ensure that all payments have been made, refunds have been accounted for, and expenditures have been reported
- ☐ adhere to the principle of separation of functions (no single office or individual may authorize payments **and** disburse Title IV funds to students)
- ☐ perform (limited) fiscal operations, such as
  - authorizing payment of Title IV funds to student accounts or to students directly
  - authorizing refunds to students
  - authorizing refunds to Title IV program accounts
  - ensuring that the school collects any required repayments
  - coordinating submission of the Fiscal Operations Report and Application to Participate (FISAP)
- ☐ provide entrance and exit counseling to borrowers of FFEL Program loans and Direct Loan Program loans as part of the award and delivery process<sup>1</sup>
- ☐ provide entrance and exit counseling to borrowers of Federal Perkins Loans as part of the award and delivery process<sup>1</sup>

1. At some schools, these activities are performed by the business office. See page 2-8.

### The Business Office

Title IV-related fiscal operations are handled by an institution's business office. This office may go by another name—fiscal office, finance office, comptroller's office, bursar's office, treasurer's office, or student accounts office. For the duration of this book, this office will be referred to simply as “the fiscal office” or “the business office.”

The business office provides critical services to the school in managing both federal and nonfederal financial aid programs. Maintaining accounting, record keeping, and reporting functions tied to the institution's use of federal and other funds requires many detailed, complex systems. Strong internal controls and sound business and financial management practices are keys to the success of these operations and delivery of funds to students.

The checklist on the next page lists some of the major responsibilities of the fiscal office.

## A school's business office must...

- ☐ coordinate activities and cooperate with the financial aid office in:
  - projecting cash flow needed to cover awards
  - processing cancellations and refunds
  - obtaining authorization to pay Title IV funds
  - being aware of the changes in Title IV laws and regulations
  - submitting accurate and timely reports
  - reconciling with the financial aid office to ensure that all financial aid adjustments have been properly recorded
- ☐ maintain a system of internal controls that includes adequate checks and balances
- ☐ ensure that the functions of authorizing and disbursing Title IV funds remain separate
- ☐ maintain records according to federal and generally accepted accounting procedures (GAAP)
- ☐ maintain records to ensure a clear audit trail
- ☐ draw down and return Title IV funds
- ☐ disburse funds to eligible students from Title IV program accounts
- ☐ maintain individual student accounts that record changes, credits, and amounts due (if the school uses individual student accounts)
- ☐ deliver FFEL Program loan proceeds
- ☐ collect Federal Perkins Loans<sup>1</sup>
- ☐ establish and implement the institution's refund policy
- ☐ establish and monitor Federal Work-Study (FWS) payroll and time sheets
- ☐ process refunds and credit balances to Title IV accounts according to the institution's refund policy and applicable federal laws and regulations
- ☐ assist in reporting Title IV expenditures to ED in a timely manner
- ☐ reconcile accounts, including
  - reconciling cash between school records and bank statements
  - reconciling federal funds between bank statements and federally reported balances
- ☐ assist in completing applications and fiscal reports for federal funds
- ☐ maintain a cash management system to meet disbursement requirements and federal laws and regulations
- ☐ provide general stewardship for federal funds, including maintaining bank accounts and investments as appropriate
- ☐ prepare for and participate in program reviews and audits
- ☐ provide entrance and exit counseling to borrowers of FFEL Program loans and Direct Loan Program loans as part of the disbursement process<sup>2</sup>
- ☐ provide entrance and exit counseling to borrowers of Federal Perkins Loans as part of the disbursement process<sup>2</sup>

1. At some schools, a separate student loan office collects these loans.

2. At some schools, these activities are performed by the financial aid office (see page 2-6). In addition, the business office may be responsible for administering other aspects of the Federal Perkins Loan Program. While the financial aid office may be responsible for awarding Perkins Loan funds, the business office may be responsible for collecting and handling promissory notes, billing borrowers in repayment, collecting payments, authorizing deferments, cancelling loans, and reporting Perkins Loans to NSLDS.



**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*

**Reference:**

- 34 CFR 600.4-600.6

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- HEA, Section 102(b)

## 2.2 Institutional Eligibility

To participate in any Title IV program(s), an institution must:

- meet the standards for an eligible institution,
- demonstrate that it meets Title IV financial responsibility requirements,
- demonstrate that it is administratively capable of managing Title IV programs,
- enter into a written Program Participation Agreement (PPA) with ED, and
- be certified to participate in Title IV programs.

### *Types of Eligible Institutions*

The Higher Education Act of 1965, as amended (HEA), defines three types of postsecondary institutions that are eligible to participate in Title IV programs:

- institutions of higher education,
- proprietary institutions of higher education, and
- postsecondary vocational institutions.

A public or private non-profit school can fall into more than one category. However, a proprietary school cannot fall into more than one category. The type of institution is defined mainly by how the school is controlled (public, private, for-profit, nonprofit) and by the minimum program length offered by the school. Proprietary institutions have an additional eligibility requirement called the “90/10” rule.

### 90/10 Rule

The 90/10 rule means that no more than 90 percent of a proprietary institution’s revenue in a fiscal year may be derived from Title IV program funds; at least 10 percent must come from non-Title IV program funds. Federal funding that is not from Title IV funds may make up the 10 percent.

- An institution that determines it satisfied the 90/10 rule during its most recently completed fiscal year must have the auditor preparing its audited financial statement report on the accuracy of that

determination. This is done in a footnote to the audited financial statement.

Schools must report directly to ED within 90 days of the end of their fiscal year when they do not satisfy this requirement. Audits of schools that do satisfy this requirement must include a statement to that effect.

The institution's overall financial management capability must be examined annually by auditors to ensure that good practices are maintained and that poor ones are corrected. Two important areas in which standards must be upheld for continued participation in Title IV programs are financial responsibility and administrative capability.

**Reference:**

- 34 CFR 668.13

**Reference:**

- [www.eligcert.ed.gov](http://www.eligcert.ed.gov)

**Reference:**

- 34 CFR 668.14

### ***Application for Approval to Participate***

An institution must be approved and certified by ED to participate in any of the following Title IV programs:

- Federal Pell Grant,
- Federal Supplemental Educational Opportunity Grant (FSEOG),
- Federal Work-Study (FWS),
- Federal Perkins Loan (Perkins),
- Federal Direct Loan, and
- Federal Family Education Loan (FFEL).

To apply for institutional participation, an institution must submit an *Application for Approval to Participate in Federal Student Financial Aid Programs* to ED as well as any other requested materials (such as a current letter of accreditation and a valid state license or other state authorization). Schools submit the application electronically using ED's Web site. However, schools must sign and send to ED Section L (signature page) of the application along with all required supporting documents.

ED uses the information in the application to determine whether the school meets Title IV eligibility requirements and is administratively capable and financially responsible.

### ***Program Participation Agreement***

If ED approves a school's application, ED sends the school two copies of a Program Participation Agreement (PPA). The PPA includes the date the school's eligibility expires. The school must sign and return both copies of the PPA to ED to participate in any Title IV program other than the

Leveraging Educational Assistance Partnership (LEAP) Program (formerly the State Student Incentive Grant Program). ED then sends the school an approval letter, an Eligibility and Certification Approval Report (ECAR), and a copy of the school's PPA signed and dated by ED.

- The ECAR contains the most critical data elements that form the basis of the school's approval and also a list of the highest level of offering, any non-degree program or short-term programs, and any additional locations that have been approved for the Title IV programs. All of these documents must be kept available to be reviewed by auditors and ED officials, including Title IV program reviewers.

Under the PPA, an institution agrees to comply with the laws and regulations governing Title IV programs. When entering into a PPA, the school must demonstrate that it can carry out its financial responsibilities for properly managing Title IV programs and is administratively capable of providing the education it promises.

A school that wishes to continue to participate in Title IV aid programs must submit a fully completed application requesting recertification 90 days before the expiration date on its current PPA. ED will send a recertification reminder notice to the school six months before its PPA expires.

### Single Identifier Initiative

Schools currently use an OPE-ID number—an eight digit, system-generated identifier—that accounts for the institution's main location, its off-site locations, and its Electronic Data Exchange (EDE) addresses. In some cases, different OPE-ID numbers (in some instances for the same Title IV program) are used for the same institution. This situation impairs ED's ability to provide accurate information about the amount of financial aid a college or university receives and hinders effective gatekeeping for Title IV programs. To remedy this situation, ED has implemented a single identifier.

The new numbering system is taking place in two phases:

- *Phase One*—Beginning 1999-2000, ED will implement a single eight-digit identification numbering system. ED internally rearranged identifiers so that schools that currently have more than one number will have one OPE-ID number. In December 1998, Phase One completed and populated an identifier crosswalk in the Postsecondary Education Participants System (PEPS) of all active and inactive Office of Student Financial Aid (OSFA) program and



#### **Reference:**

- DCL-ANN-97-4
- DCL-ANN-97-7
- DCL-GEN-98-8



#### **Reference:**

- [www.sii.ed.gov](http://www.sii.ed.gov)
- [www.dnb.com](http://www.dnb.com)



**Reference:**

- DCL-ANN-97-4
- DCL-ANN-97-7
- DCL-GEN-98-8



**Reference:**

- [www.sii.ed.gov](http://www.sii.ed.gov)
- [www.dnb.com](http://www.dnb.com)

Electronic Data Exchange (EDE) identifiers. Those identifiers are now crossed to an OPE-ID numbering system.

- *Phase Two*—From 1999 to 2001, ED will design and implement software changes required to use the data universal numbering system (DUNS). The DUNS number is the sole Title IV identifier for participating postsecondary educational institutions, lenders, third-party servicers, and guarantors.

DUNS identifiers will be given to each eligible or ineligible non-main campus educational site and each active or inactive Pell Grant, Direct Loan, and need analysis electronic data exchange site. The target date for incorporating the DUNS identifier within the OSFA system is the 2001-2002 award year.

As part of the government-wide effort to adapt to electronic commerce, ED intends to implement the DUNS identification system as the Title IV Single Identifier for all participants: colleges and schools, lenders, servicers, and guarantors.

- Not all third-party servicers will receive DUNS numbers because if they do not have an OPE-ID number (a current record in PEPS), ED cannot propose a DUNS number in the crosswalk.

Adoption of the DUNS identification system as the Title IV identifier instead of an OPE-ID number will simplify participation in Title IV programs as institutions are already required to have a DUNS identifier for conducting electronic commerce.

## 2.3 Financial Responsibility Standards



**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- HEA, Section 498(c)
- 34 CFR 668, Subpart L

Congress requires ED to assess whether institutions are financially responsible by determining if they satisfy three statutory components. See the chart on the next page.

According to ED regulations, a school is considered to be financially responsible if it:

1. provides the services described in its official publications and statements;
2. administers properly the Title IV programs in which it participates; and
3. meets all of its financial obligations.

Using institutional audited financial statements and other information, ED evaluates whether the school meets required financial responsibility standards.

Components of Financial Responsibility	
To be financially responsible, a school must...	ED assesses schools on the basis of....
<ul style="list-style-type: none"> <li>Meet its financial obligation</li> </ul>	<ul style="list-style-type: none"> <li>Making timely refunds to students</li> <li>Making timely repayments to ED</li> <li>Being current on its debt payment</li> </ul>
<ul style="list-style-type: none"> <li>Administer Title IV programs properly</li> </ul>	<ul style="list-style-type: none"> <li>Past performance</li> <li>Program compliance</li> </ul>
<ul style="list-style-type: none"> <li>Be in adequate financial condition</li> </ul>	<ul style="list-style-type: none"> <li>Sufficient resources for its education programs, services, and financial obligations</li> </ul>



**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.171(c)(1) and (2)



**Reference:**

- 34 CFR 668.174



**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*

### ***Financial Responsibility Standards for Public Institutions***

ED considers a public institution to be financially responsible if the institution:

- notifies ED that it is designated as a public institution by the state, local, or municipal government entity, tribal authority, or other government entity that has legal authority to make that designation;
- provides a letter from an official of that state or government entity confirming that the institution is a public institution; and
- is not in violation of any past performance requirement.

### ***Financial Responsibility Standards for Proprietary and Private Institutions***

A for-profit or non-profit private institution is financially responsible if ED determines that it meets *all* of the four standards that follow and does not have an adverse, qualified, or disclaimed audit opinion or past performance problem.

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.171(b)(1)
- 34 CFR 668.172(b)(1)(2)
- 34 CFR 668, Appendix F
- 34 CFR 668, Appendix G

**Reference:**

- See pages 2-64 and 2-67 of this book for more information on calculating ratio methodologies for proprietary and private non-profit institutions.

**Reference:**

- 34 CFR 668.172(c)(1)(2)

Standard #1

The institution's equity, primary reserve, and net income ratios must yield a composite score of at least 1.5. ED determines the composite score by:

1. calculating the result of the school's primary reserve equity and net income ratios,
2. calculating the strength factor score for each of those ratios by using the corresponding algorithm,
3. calculating the weighted score for each ratio by multiplying the strength factor score by its corresponding weighted percentage,
4. summing the resulting weighted scores to arrive at the composite score, *and*
5. rounding the composite score to one digit after the decimal point.

The ratios for proprietary institutions are:

$$\text{Primary Reserve ratio} = \frac{\text{Adjusted Equity}}{\text{Total Expenses}}$$

$$\text{Equity ratio} = \frac{\text{Modified Equity}}{\text{Modified Assets}}$$

$$\text{Net income ratio} = \frac{\text{Income Before Taxes}}{\text{Total Revenues}}$$

The ratios for private non-profit institutions are:

$$\text{Primary Reserve ratio} = \frac{\text{Expendable Net Assets}}{\text{Total Expenses}}$$

$$\text{Equity ratio} = \frac{\text{Modified Net Assets}}{\text{Modified Assets}}$$

$$\text{Net income ratio} = \frac{\text{Change in Unrestricted Net Assets}}{\text{Total Unrestricted Revenues}}$$

In calculating an institution's ratios, the U.S. Secretary of Education (the Secretary) generally excludes:

- extraordinary gains or losses,
- income or losses from discontinued operations,
- prior period adjustments,

**Reference:**

- 34 CFR 668.173(c)(3)(4)

**Reference:**

- 34 CFR 668.172(c)(5)(i)(ii)

**Reference:**

- 34 CFR 668.171(b)(2)
- 34 CFR 668.173(a)

**Reference:**

- 34 CFR 668.173(b)(1)(2)

- the cumulative effect of changes in accounting principles, and
- the effect of changes in accounting estimates.

The Secretary may include or exclude the effects of questionable accounting treatments, such as excessive capitalization of marketing costs.

The Secretary also excludes:

- all unsecured or uncollateralized related-party receivables,
- all intangible assets defined as intangible in accordance with generally accepted accounting principles (GAAP), and
- federal funds provided to an institution by the Secretary authorized by the HEA only if:
  - the auditor, in notes on the audited financial statement or as a separate attestation, discloses by name and CFDA number, the amount of HEA program funds reported as expenses in the Statement of Activities for the fiscal year covered by the audit or attestation *and*
  - the institution's composite score, as determined by the Secretary, is less than 1.5 before the reported expenses arising from those HEA funds are excluded from the Primary Reserve ratio.

**Standard #2**

The institution must have sufficient cash reserves to make required refunds. An institution is considered to have sufficient cash reserves if it:

- satisfies the requirements of a public institution,
- is located in a state that has a tuition recovery fund approved by the Secretary and the institution contributes to that fund, *or*
- demonstrates that it makes its refunds in a timely manner.

An institution makes timely refunds if the auditor(s) who conducted the institution's compliance audits for the institution's two most recently completed fiscal year or the Secretary, a state, or guaranty agency that conducted a review of the institution covering those fiscal years:

- did not find in the sample of student records that:



**Reference:**

- 34 CFR 668.173(c)



**Reference:**

- 34 CFR 668.173(c)  
(1)(2)



**Reference:**

- 34 CFR 668.173(d)

- the institution made late refunds to 5 percent or more of the students in that sample *or*
- the institution made only one late refund to a student in that sample, and
- did not note for either of those fiscal years a material weakness or a reportable condition in the institution's report on internal controls that is related to refunds.

If an institution no longer satisfies a refund standard or is not making its refunds in a timely manner, the institution must submit an irrevocable letter of credit. The letter of credit must be:

- acceptable and payable to the Secretary and
- equal to 25 percent of the total amount of Title IV refunds the institution made or should have made during its most recently completed fiscal year.

The institution must submit this letter of credit to the Secretary no later than:

- 30 days after the date the institution is required to submit its compliance audit to the Secretary, if the finding is by the auditor who conducted that compliance audit *or*
- 30 days after the date the Secretary or the state or guaranty agency that conducted a review of the institution notifies the institution of the finding.
- The institution must also notify the Secretary of that finding and of the state or guaranty agency that conducted a review of the institution.

To determine whether to approve a state's tuition recovery fund the Secretary considers the extent to which that fund:

- provides refunds to both in-state and out-of-state students,
- allocates all refunds in accordance with the order required under 34 CFR 668.22, and
- provides a reliable mechanism for the state to replenish the fund should any claims arise that deplete the fund's assets.



**Reference:**

- 34 CFR 668.171(b)(3)

**Standard #3**

The institution must be current in its debt payments. An institution is not current in its debt payments if:

- it is in violation of any existing loan agreement at its fiscal year end, as disclosed in a note to its audited financial statements or audit opinion *or*
- it fails to make a payment according to existing debt obligations for more than 120 days, and at least one creditor has filed suit to recover funds under those obligations.

**Standard #4**

The institution must meet all of its financial obligations, including (but not limited to):

- refunds that it is required to make; and
- repayments to ED for debts and liabilities arising from its participation in Title IV programs.

Even if an institution satisfies all of these standards, ED will not consider the school financially responsible if:

1. the institution's audited financial statements contain an adverse, qualified, or disclaimed audit opinion, or the auditor expresses doubts about the continued existence of the institution as a going concern;

OR

2. the institution violated a Title IV program requirement, or the persons or entities affiliated with the institution owe a liability for a violation of a Title IV program requirement.

ED will disregard the first reason if the qualified or disclaimed opinion does not have a significant bearing on the institution's financial condition. ED will disregard the second reason if the liability in question is being repaid or the persons or entities owing the liability do not exercise substantial control over the institution.

**Reference:**

- 34 CFR 668.171(d)(1)(2)

**Reference:**

- 34 CFR 668.174(b)(2)

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.174(a)(1)

**Past Performance**

An institution is not financially responsible if the institution:

- has been limited, suspended, terminated, or entered into a settlement agreement to resolve a limitation, suspension, or

**Reference:**

- 34 CFR 668.174(a)(2)

**Reference:**

- 34 CFR 668.174(a)(3)

**Reference:**

- 34 CFR 668.174(a)(4)

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.175(a)

**Reference:**

- 34 CFR 668.175(b)

**Reference:**

- 34 CFR 668.175(c)

termination action initiated by the Secretary or a guaranty agency as defined in 34 CFR part 682, within the preceding five years;

- in either of its two most recent compliance audits had an audit finding or in a report issued by the Secretary had a program review finding for its current fiscal year *or* in either of its preceding two fiscal years that resulted in the institutions being required to repay an amount greater than 5 percent of the funds that the institution received under the Title IV programs during the year covered by that audit or program review;
- has been cited during the preceding five years for failure to submit in a timely fashion acceptable compliance and financial statement audits required under 34 CFR 668.174 or acceptable audit reports required under the individual Title IV program regulations; *or*
- has failed to resolve satisfactorily any compliance problems identified in audit or program review reports based upon a final decision for the Secretary issued pursuant to subpart G or H of 34 CFR 668.174.

### ***Other Financial Responsibility Standards***

Schools that are not financially responsible under the regular standards may begin participating or continue participating in Title IV programs by qualifying under an alternative standard. There are three types of alternative standards: letter-of-credit alternative, zone alternative, and provisional certification alternative. There are also specific financial responsibility standards for schools that change ownership, guaranty agencies, and third-party servicers.

#### **Letter-of-Credit Alternative**

An institution that seeks Title IV program participation for the first time, but is not financially responsible solely because its composite score (from its equity, primary, and net-income ratios) is less than 1.5, will qualify as a financially responsible institution by submitting an irrevocable letter of credit that is acceptable and payable to ED. ED will specify the amount, but regulations require the letter of credit to equal at least 50 percent of the amount of Title IV program funds the institution will receive during its initial year of participation.

A participating institution that is not financially responsible because it does not satisfy one or more of the financial responsibility standards or has an unsatisfactory audit opinion can also use an irrevocable letter of credit. To qualify as financially responsible, the letter must be acceptable and payable

to ED. ED will specify the amount, but regulations require the letter of credit to equal at least 50 percent of the Title IV program funds received by the institution during its most recently completed fiscal year.

*A participating school that is not financially responsible due to past performance problems is not eligible for this letter-of-credit alternative.*



**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.175

### Zone Alternative

The zone alternative is only an option for a participating institution if the school is not financially responsible because its composite score is less than 1.5. If a participating school fails any other test of financial responsibility, the school cannot qualify for the zone alternative.

An institution qualifies as financially responsible under this alternative if its composite score is in the range 1.0 to 1.4 (based on the audited financial statement for its most recently completed fiscal year) and it satisfies other standards of financial responsibility. ED may deem a school to be financially responsible under the zone alternative for no more than three consecutive years. An institution that qualifies under this alternative, whether for three years or just one or two years, cannot use the zone alternative again until the year after it achieves a composite score of at least 1.5.

To participate under the zone alternative, an institution must also meet the following five requirements:

1. ED will require the school to use the cash monitoring or reimbursement payment method to make disbursements to eligible students and parents.
2. ED will require the school to provide timely information about any of the following six oversight and financial events:
  - any adverse action, including a probation or similar action, taken against the institution by its accrediting agency;
  - any event that causes the institution or a related entity to realize any liability that was noted as a contingent liability in the institution's or related entity's most recent audited financial statement;
  - any violation by the institution of any loan agreement;

- any failure of the institution to make a payment according to its debt obligations that results in a creditor filing suit to recover funds under those obligations;
- any withdrawal of owner’s equity from the institution by any means, including declaring a dividend; or
- any extraordinary losses.

*No later than 10 days after the event occurs, the school must provide information on the above events by certified mail, fax, or other electronic transmission. If fax or other electronic transmission is used, the school is responsible for confirming that ED received a complete, legible copy of the transmission.*

**Reference:**

- 34 CFR 668.23(a)(4)

3. ED may require the institution’s audited financial statement and compliance audit to be submitted earlier than specified in regulations. For example, instead of six months after the end of the school’s fiscal year, ED could require the school to submit its audit reporting package as early as 60 days after the end of its fiscal year.
4. ED can require the institution to provide information about its current operations and future plans.
5. The institution must, as a part of its compliance audit, require its auditor to express an opinion on the school’s compliance with the requirements under the zone alternative, including the school’s administration of the payment method under which it received and disbursed Title IV program funds.

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.175(f)

**Reference:**

- 34 CFR 668.171(b) and (d)

**Reference:**

- 34 CFR 668.174(a)

**Provisional Certification Alternative**

The provisional certification alternative is for participating institutions that cannot qualify, or choose not to qualify, under any of the other alternatives. ED, at its discretion, may allow provisional certification for an institution that is not financially responsible because:

- it does not satisfy the financial responsibility standards or has an unsatisfactory audit opinion;

**OR**

- its past performance shows that it violated a Title IV program requirement, but it has satisfied or resolved the violation.

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*

**Reference:**

- 34 CFR 668.171(b)(3) and (b)(4)

**Reference:**

- 34 CFR 668.175(d)(2) and (d)(3)

Under this alternative, an institution receives an initial provisional certification, which cannot exceed three consecutive fiscal years. An initial provisional certification carries the following three main conditions:

1. The institution must submit an irrevocable letter of credit that is acceptable and payable to ED. ED decides on the amount, but it cannot be less than 10 percent of the Title IV program funds received by the institution during its most recently completed fiscal year.
2. The institution must demonstrate that it was current on its debt payments and has met all of its financial obligations for its two most recent fiscal years.
3. The institution must comply with all of the provisions of the zone alternative.

When the initial provisional certification ends, if the institution is still not financially responsible, ED may again permit it to participate under a provisional certification. However, ED may impose one or both of the following additional conditions:

1. ED may require the institution, or one or more persons or entities that exercise substantial control over it, to submit financial guarantees for an amount determined by ED to be sufficient to satisfy any potential liabilities arising from the institution's participation in Title IV programs.
2. ED may require one or more persons or entities that exercise substantial control over the institution to be jointly or severally liable for any liabilities arising from the institution's participation in Title IV programs.

### Provisional Certification Alternative for Institutions Controlled by Persons or Entities Owing Liabilities

An institution may be deemed not financially responsible because the persons or entities that exercise substantial control over the institution owe a liability for a violation of a Title IV program requirement.

In such cases, ED may allow the school to participate under a provisional certification only on three conditions:

1. **EITHER** the persons or entities that exercise substantial control repay or enter into an agreement with ED to repay the applicable portion of that liability, **OR** the institution assumes that liability

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.175(g)



**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*

and repays or enters into an agreement with ED to repay that liability.

2. The institution must satisfy the standards of financial responsibility and demonstrate that it was current on its debt payments and has met all of its financial obligations for its two most recent fiscal years.
3. The institution must submit an irrevocable letter of credit that is acceptable and payable to ED. ED decides on the amount, but it cannot be less than 10 percent of the Title IV program funds received by the institution during its most recently completed fiscal year.

ED also requires the institution to comply with the provisions under the zone alternative. Furthermore:

1. ED may require the institution, or one or more persons or entities that exercise substantial control over the institution, or both, to submit financial guarantees for an amount determined by ED to be sufficient to satisfy any potential liabilities arising from the institution's participation in Title IV programs; and
2. ED may require one or more of the persons or entities that exercise substantial control over the institution to be jointly or severally liable for any liabilities arising from the institution's participation in Title IV programs.

### Schools that Change Ownership

ED evaluates a school that changes ownership according to the factors of financial responsibility contained in regulations. During the 1997-98 "transition year," these regulations also applied to guaranty agencies, third-party servicers, and schools. (The transition year allowed schools that were not financially responsible under Subpart L solely because their composite scores were less than 1.5 to qualify as financially responsible.)

A newly eligible institution or an institution that is undergoing a change of ownership is required to implement a default management plan for two years unless:

- the school's branch campus or main campus has a cohort default rate of 10 percent or less and
- the new owner does not own, and has not owned, any other school with a cohort default rate in excess of 10 percent.



**Reference:**

- 34 CFR 668.15



**Reference:**

- HEA, Section 487



The checklist below lists the general rules a school that changes ownership must follow to be considered financially responsible.

### To be considered financially responsible, a school that changes ownership must...

- |  |   |
|--|---|
| <input type="checkbox"/> provide the services described in its official publications and statements  | <input type="checkbox"/> not have an individual who exercises significant control over the school and owes a liability for a Title IV program violation unless the school and the individual owing the liability meet certain regulatory provisions |
| <input type="checkbox"/> provide the administrative resources necessary to comply with requirements for participating in Title IV programs   | <input type="checkbox"/> not have been limited, suspended, or terminated from a Title IV program or have not entered into a settlement agreement to resolve a limitation, suspension, or termination within the preceding five years                |
| <input type="checkbox"/> meet all of its financial obligations, including paying required refunds to students and debts to ED  | <input type="checkbox"/> not have been required to repay an amount greater than 5 percent of Title IV funds received for an award year as a result of a finding during its two most recent program reviews or audits                                |
| <input type="checkbox"/> be current in paying any institutional debts  | <input type="checkbox"/> not have been cited during the preceding five years for failure to submit acceptable audit reports in a timely manner  |
| <input type="checkbox"/> post an irrevocable letter of credit (LOC), acceptable and payable to ED, equal to 25 percent of the total amount of Title IV program refunds paid by the school in the previous fiscal year            | <input type="checkbox"/> not have failed to resolve satisfactorily any compliance problems identified during a program review or audit  |
| <input type="checkbox"/> not have part of its most recent audit report be a statement expressing substantial doubt of the school's ability to continue as a "going concern" or a disclaimed or adverse opinion by the accountant |   |



#### Reference:

- 34 CFR 668.16

## 2.4 Administrative Capability

In addition to demonstrating that it is financially responsible, a school must be administratively capable of participating in Title IV programs. Using a school's audited financial statements and other information, ED evaluates the school's administrative capability according to the standards contained in regulations. (See checklist on the next page.)

If ED finds that a school is not administratively capable only on the basis of its Federal Direct Loan Program, FFEL Program, and/or Federal Perkins Loan Program cohort default rate(s), ED may provisionally certify the school's participation in Title IV programs.



## To be considered administratively capable, a school must...

- ☐ administer Title IV programs according to all Title IV requirements
- ☐ use an adequate number of qualified persons to administer Title IV programs in which the school participates
- ☐ designate a capable individual to be responsible for administering all Title IV programs
- ☐ communicate to the individual responsible for administering Title IV programs all information that bears on students' Title IV eligibility
- ☐ have written procedures for administering Title IV programs
- ☐ administer Title IV programs with adequate checks and balances in its system of internal controls
- ☐ separate the functions of authorizing Title IV payments and disbursing and/or delivering Title IV funds so that the functions are carried out by at least two organizationally independent individuals
- ☐ establish and maintain required Title IV records
- ☐ establish, publish, and apply reasonable standards for measuring students' satisfactory academic progress (SAP)
- ☐ develop an adequate system for resolving discrepancies in information related to students' applications for Title IV assistance
- ☐ refer any credible information about Title IV fraud, abuse, or misrepresentation to ED's Office of Inspector General (OIG)
- ☐ provide adequate financial aid counseling to Title IV applicants
- ☐ submit required Title IV reports in a timely manner, including fiscal reports, financial statements, and reconciliations
- ☐ not demonstrate any significant problems in its ability to administer Title IV programs
- ☐ not have connected with the school any individual who is/has been debarred or suspended or engaged in any activity that would be cause for debarment or suspension
- ☐ not have had more than 33 percent of its undergraduate regular students<sup>1</sup> withdraw during the latest completed award year (for a school seeking initial participation in a Title IV program)
- ☐ have a cohort default rate of less than 25 percent under the FFEL Program/Direct Loan Program for each of the three most recent fiscal years and that is equal to or less than 15 percent under the Federal Perkins Loan Program
- ☐ not appear to lack the ability to administer Title IV programs competently
- ☐ participate in ED's electronic processes

1. A regular student is a person who is enrolled or accepted for enrollment at an institution for the purpose of obtaining a degree, certificate, or other recognized educational credential offered by that institution. See 34 CFR 600.2



If ED finds that a school is not administratively capable only on the basis of its Federal Direct Loan Program, FFEL Program, and/or Federal Perkins Loan Program cohort default rate(s), ED may provisionally certify the school's participation in Title IV programs.

### ***Separation of Functions***



#### **Reference:**

- 34 CFR 668.16(c)(2)
- See Section 5.4 of this book for further details on the separation of functions.

Federal regulations require an institution to divide the functions of authorizing payments and disbursing funds so that no single office or individual has responsibility for both functions for any student receiving Title IV funds. Even at very small institutions, no one person may be allowed to authorize payment of Title IV funds *and* to disburse those funds.

In this regard, the school must ensure that these two functions for any student receiving Title IV aid are carried out by at least two organizationally independent individuals. These individuals cannot be members of the same family and they cannot together exercise substantial control over the school.

Typically, the financial aid office awards Title IV funds and authorizes payment of those funds to students. The fiscal office requests funds from GAPS and disburses the funds by crediting student accounts, delivering checks to students, or delivering cash to students. The person who awards Title IV funds may not be authorized by the institution to sign checks or deliver them to students, nor may he or she be permitted to deliver cash to students or to credit student accounts for tuition, fees, books, supplies, or other charges.

As mentioned earlier, electronic processes enhance accuracy and efficiency. They also can blur separation of functions so the awarding and disbursement occur virtually simultaneously.



#### **Reference:**

- See Section 6.1 of this book for more information on RFMS.

**\*Under the just-in-time payment method, schools handle the authorization and disbursement process differently. The disbursement record itself in RFMS drives the deposit of funds in the school's bank account.**

- For example, in the advance payment method\* under the Recipient Financial Management System (RFMS), an origination record must be created for each student eligible to receive a Pell Grant as well as a disbursement record. The financial aid office authorizes the payment (origination record and disbursement record) and the business office requests the funds from GAPS and disburses the funds to the school's bank account.
- For example, under the Direct Loan Program, a promissory note must be on file and an origination record must be created for each student eligible to receive a Direct Loan as well as a disbursement record. Once the origination record is created, the financial aid office receives a disbursement list. The financial aid office then authorizes the loan to be disbursed and the business office requests the funds from GAPS and disburses the funds.

**Reference:**

- See Appendix D for more information on Case Management Teams.

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- *Federal Register*, September 19, 1997
- 34 CFR 668.16(o)

Schools must set up controls to prevent an individual or an office from having the authority to perform both functions. For guidance on the separation of functions, contact the Case Management Team that serves the state of your school.

### ***Required Electronic Processes***

To be considered administratively capable to participate in Title IV programs, an institution must participate in all electronic processes that are required by ED, if the processes are provided at no substantial charge to the school. ED informs schools of the required processes through notices published in the *Federal Register*.

ED requires all schools to use certain electronic processes to participate in and administer Title IV programs. A list of the required processes and the deadline dates for implementation is on page 27 and a list of the technical specifications is on page 28.

Beginning with the 1999-2000 processing year, schools using a PC platform to participate in and administer Title IV programs must be prepared to process ED data using:

- Windows 95,
- Windows NT, or
- a newer version of the Windows operating system.

ED's electronic services no longer support the disk operating system (DOS) or any earlier versions of Windows.

## Required Electronic Processes and Deadline Dates

Deadline Date	Designated Electronic Processes
January 1, 1998	<ul style="list-style-type: none"> <li>• Participate in the Title IV Wide Area Network (TIV WAN)<sup>1</sup></li> <li>• For the 1998-99 Processing Year<sup>2</sup> and Beyond:               <ul style="list-style-type: none"> <li>– Receiving Institutional Student Information Records (ISIRs)</li> <li>– Adding your school to the Central Processing System (CPS) Record</li> <li>– Having online access to the National Student Loan Data System (NSLDS)</li> </ul> </li> </ul>
July 1, 1998	<ul style="list-style-type: none"> <li>• Having access to the Information for Financial Aid Professional (IFAP) Web site</li> <li>• Submitting the Application for Approval to Participate in Federal Student Financial Aid Programs (initial certification, recertification, reinstatement, and changes) through the Internet</li> <li>• Submitting the Fiscal Operations Report and Application to Participate (FISAP) to TIV WAN</li> </ul>
July 1, 1999	<ul style="list-style-type: none"> <li>• For the 1999-2000 Award Year and Beyond:               <ul style="list-style-type: none"> <li>– Reporting Federal Pell Grant payments <i>electronically</i> through TIV WAN<sup>3</sup></li> </ul> </li> <li>• Submitting Student Status Confirmation Report (SSCR) data <i>electronically</i> to NSLDS</li> <li>• Submitting Federal Perkins Loan data <i>electronically</i> to NSLDS</li> </ul>

<sup>1</sup> Refer to DCL-98-24 (Action Letter #4) for enrollment procedures and updating enrollment information for TIV WAN.

<sup>2</sup> The application processing cycle lasts 18 months. For the 1998-1999 award year, application processing begins in January 1999 and applications for that year will be accepted until June 30, 1999.

<sup>3</sup> For the 1999-2000 award year only, schools have the option of continuing to send Federal Pell Grant origination and disbursement data on tape via the Recipient Data Exchange (RDE). After 1999-2000 and beyond, RDE will be eliminated and schools must submit origination and disbursement data *electronically*.

## Technical Specifications

Equipment	Minimum Configuration Required by January 1, 1999
Hardware	<ul style="list-style-type: none"> <li>• IBM or fully IBM-compatible PC</li> <li>• 200 MHZ Pentium Processor or comparable</li> <li>• 64 MB RAM</li> <li>• 4.0 GB SCSI Hard Drive</li> <li>• 56K Analog Modem</li> <li>• 3.5-inch/1.44 MB Diskette Drive</li> <li>• SVGA Monitor</li> <li>• Windows 95 Keyboard</li> <li>• Laser printer capable of printing on standard paper (8.5 x 11-inch)</li> <li>• 12x CD-ROM with sound board<sup>1</sup></li> </ul>
Software	<ul style="list-style-type: none"> <li>• 32 bit operating system</li> <li>• Windows 95, Windows 98, or Windows NT 4.x</li> <li>• Internet Servicer Provider (ISP)<sup>2</sup></li> <li>• Netscape Navigator 3.0 or 3.01 (domestic), Explorer 4.0, or other web browser<sup>3</sup></li> </ul>
Phone Line	<ul style="list-style-type: none"> <li>• Dedicated phone line</li> </ul>
Diskettes	<ul style="list-style-type: none"> <li>• 3.5-inch high-density, double-sided diskettes</li> </ul>

<sup>1</sup> Required if school wants to use the EDEExpress Tutorial and AWARE software.

<sup>2</sup> Will be necessary to access the Information for Financial Aid Professionals (IFAP) Web site and to submit the Application for Approval to Participate in Federal Student Financial Aid Programs (initial certification, recertification, reinstatement, and changes).

<sup>3</sup> Currently, must use Netscape Navigator 3.0 or 3.1 (domestic) to use FAFSA on the Web. ED is testing other Web browsers that will be made available to the public in the near future.

**Reference:**

- [www.ed.gov/offices/OCIO/year](http://www.ed.gov/offices/OCIO/year)

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*

### Year 2000 Compliant

Many existing computer systems were designed to store and process data using only the last two digits of the year. Unless these systems are redesigned to use a four-digit character year and can account for the change in the century, there is a major risk that they will incorrectly handle data for years beyond 1999. For example, will a computer read the two-digit character year “00” as the year 1900 or the year 2000?

To address this problem, ED is redesigning all of its computer systems. ED also required that all computer systems schools use for processing financial aid data be “Year 2000 Compliant” by January 1, 1999. By this date all financial aid data processing systems, procedures, and protocols were required to be able to store and report date data in ways that differentiate between years before 2000 and beyond 2000. This requirement also applied to any third-party servicer a school contracts with to administer Title IV programs.

### Modernization Blueprint (formerly Project Easy Access for Students and Institutions [EASI])

**Reference:**

- <http://easi.ed.gov>

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*

**\*Project EASI has been renamed the Modernization Blueprint.**

On August 1, 1995, the U.S. Secretary of Education requested ED and its partners in the postsecondary education community to design, integrate, and develop a comprehensive financial aid delivery system. In response to this challenge, government, education, student, and business leaders initiated the Modernization Blueprint.

The Modernization Blueprint is a collaborative effort by members of the postsecondary education community (including ED, schools, lenders, servicers, guarantors, professional organizations, and state agencies) to define and implement a customer-focused system to support postsecondary education as well as to improve customer access to information and funding for education beyond high school.

The goals of the Modernization Blueprint include providing system users with a single point of interface to the more streamlined processes associated with postsecondary education, while reducing complexity, redundancy, and cost.

The Modernization Blueprint has six major functional areas:

1. sharing information
2. applying for federal financial aid
3. disbursing federal financial aid
4. tracking and reporting enrollment

5. handling repayments of federal financial aid
6. providing program management and oversight

When fully implemented, the Modernization Blueprint will assist students and their families in planning for postsecondary education, choosing among postsecondary schools, and financing their choices.

**Reference:**

- <http://easi.ed.gov>

### Access America for Students

ED has joined with several other federal agencies to develop and implement Access America for Students (Access America). Access America will provide electronic, Web-based access to government services. The initiative will test the use of three basic tools for modernization of government services:

- a Web site gateway to access government services,
- an electronic ID to complete transactions with the government and other parties over the Internet, and
- a student account based on commercial financial infrastructure to support the delivery of student aid and provide customer information.

Access America also tests the key concepts of the Modernization Blueprint (formerly Project EASI):

- providing the postsecondary education community with a single point of interface for student financial aid information;
- developing an integrated student aid account;
- supporting a common origination and payment process;
- providing current information for improved management oversight and analysis;
- providing a clear audit trail and minimizing reconciliation; and
- reducing overall administrative cost for all industry partners through standardized data and business processes.

In the 1999-2000 funding year, seven schools will participate in the Access America for Students pilot project for the Federal Pell Program and the Direct Loan Program.

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668 Subpart D

## 2.5 Student Consumer Information

Regulations specify published information that institutions are required to make available to students, prospective students, and employees. These regulations also allow ED to fine a school, or to limit, suspend, or terminate the participation of any school that substantially misrepresents the nature of its educational program, financial charges, or the employability of its graduates.

This is an area of responsibility that is shared among institutional offices. In general, the financial aid and business offices share primary responsibility for providing this information, but other offices must be involved as well.

### ***Financial Aid Information***

All institutions are required to provide information on:

- all financial aid programs available to students, the amounts of aid available from each source, and the required application procedures,
- how student eligibility for aid is determined,
- how the school distributes aid among students,
- the rights and responsibilities of financial aid recipients,
- how and when financial aid will be disbursed,
- the terms and conditions of any employment offered as financial aid,
- the terms of, schedules for, and necessity of loan repayment,
- the criteria for measuring students' satisfactory academic progress and the procedures students must follow to regain eligibility if they failed to meet these criteria,
- information on preventing drug and alcohol abuse,
- information about the availability of federal financial aid funds for study-abroad programs, and
- information on availability of community-service FWS jobs.

### ***General Information***

Schools are also required to provide general information about themselves. This information includes matters related to fiscal operations, such as:

- licensing and accreditation;
- costs of attendance, including tuition, fees, room and board, transportation, books and supplies, loan fees, buying or renting a computer, and additional costs associated with certain programs of study;
- all requirements for officially withdrawing from school;
- institutional refund and repayment policies (and, as of October 7, 2000, the policy for return of Title IV aid, unless the school implements the return of Title IV aid earlier than October 7, 2000); *and*
- distributing student financial aid refunds and repayments to Title IV programs.

### ***Availability of Personnel***

Federal regulations require that schools make personnel available during normal operating hours to help current and prospective students obtain consumer information.

### ***Job Placement Claims***

A school that makes marketing claims about job placement rates to recruit students must disclose information supporting these claims to prospective students at or before the time of application. This means that schools must provide detailed statistics and other information necessary to substantiate the truthfulness of their claims. If a school advertises job placement rates to attract enrollment, it must inform prospective students of the state licensing requirements for the jobs for which the students seek training.

### ***Student Right-To-Know Provisions***

All schools participating in Title IV programs are subject to the disclosure requirements of the Student Right-To-Know Act (SRK). SRK requires a school to make available its completion or graduation rates by July 1 of each year. A school must provide the information upon request to enrolled and prospective students.

- In the case of a prospective student, the school must provide information before the student enters into a financial obligation.

A school also must provide the information to ED through the National Center for Education Statistics annual graduation rate survey.



By July 1 of each year, SRK requires a school that awards athletically-related student aid to report to ED various information concerning students who receive athletic aid, including their completion or graduation rate. SRK also requires a school to provide the information to a prospective student-athlete and his or her parents, high school coach, and guidance counselor at the time the school offers the prospective student-athlete athletically-related student aid.

### ***Equity in Athletics Provisions***

The Equity in Athletics Disclosure Act (EADA) is designed to make students, prospective students, and the interested public aware of:

- the athletic opportunities available to a school's male and female students and
- the financial resources and personnel the school dedicates to its men's and women's teams.

EADA applies to any coeducational institution of higher education that participates in a Title IV student aid program and has an intercollegiate athletic program. Pursuant to EADA, a school must prepare an annual report that includes information such as:

- a list of the school's varsity teams,
- the number of participants on each team,
- the number of coaches for each team, and
- various breakdowns of athletically-related expenses and revenues.

Note that the HEA of 1998 moved certain athletically-related expense and revenue disclosure requirements from the Program Participation Agreement section of the HEA of 1965 to EADA. These amendments repealed the audit requirement for those disclosures.

A school must make its EADA report available upon request to enrolled students, prospective students, and the public by October 15 of each year and the school also must submit the report to ED.

### ***Campus Security Provisions***

The Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (formerly the Campus Security Act of 1990) requires schools to publish annually specific crime-related information. The report includes information about a school's security policies and procedures, crime



#### **Reference:**

- HEA, Section 485(f)



**\*The definition of “campus” includes reasonable contiguous property used by students that supports institutional purposes such as a food court, certain non-campus buildings or property, and public property.**



**\*\*The HEA of 1998 added the crimes of manslaughter, arson, and arrests or persons referred for campus disciplinary action for liquor law violations, drug-related violations, and weapons possession.**



prevention programs, and campus crime statistics. The school must distribute it to all current students and employees and, on request, to prospective students and employees.

Schools also must provide timely warning to the campus\* community of any occurrences of crimes that are reported to the campus security authorities or local police agencies and that are considered to represent a continuing threat to students and/or employees. The crimes to be reported are:

- murder,
- forcible and nonforcible sex offenses,
- robbery,
- aggravated assault,
- burglary,
- motor vehicle theft,
- manslaughter,\*\*
- arson,\*\* and
- arrests or persons referred for campus disciplinary action for liquor law violations, drug-related violations, and weapons possession.\*\*

Schools must maintain daily logs of crimes reported to the police or security departments. These daily logs:

- must include the nature, date, time, and general location of the crime *and*
- must be open to public inspection within two business days of the report except where
  - prohibited by law,
  - disclosure jeopardizes a victim’s confidentiality, or
  - disclosure hinders investigation.

Campus crime statistics must be categorized on the basis of where a criminal offense occurs:

- on campus,
- in or on a non-campus building or property,

**\*Prior to October 1998, schools submitted these statistics to ED only when requested by ED.**

- on public property, and
- in dormitories or other residential facilities for students on campus.

Schools must also maintain statistics by category of prejudice for any hate crimes involving bodily injury. That is, crimes to any person in which the victim is intentionally selected because of actual or perceived race, gender, religion, sexual orientation, ethnicity, or disability.

These statistics are reported annually\* to ED. ED will make copies of the statistics available to the public.

The provisions of the Family Educational Rights and Privacy Act (FERPA) do not prohibit a school from complying with the requirements of the campus security regulations.

## 2.6 Institutional Policies and Procedures Manual

The law requires schools to have written policies and procedures for administering Title IV programs. The policies and procedures must address:

- student consumer information,
- verification,
- satisfactory academic progress,
- refund and repayment, and
- loan disclosure statements and fact sheets (this requirement does not apply to Direct Loans).

### ***Advantages of Policies and Procedures Manual***

Although the law does not require schools to maintain written policies and procedures in a manual, schools generally find that a manual helps them manage financial aid programs more effectively, efficiently, and consistently. A comprehensive manual can:

- document how and when the school establishes specific policies and procedures,
- provide a single location for the school's policies and procedures, and
- serve as a reference guide and training resource.

A policies and procedures manual is also extremely valuable when a school undergoes a compliance audit or program review.

Many institutions have business procedures manuals to cover fiscal matters, such as accounting, budgeting, payroll, personnel, and the like. However, due to the broad scope and complexity of financial aid programs, it is wise to develop a separate financial aid policies and procedures manual. This manual should address policies and procedures that affect all aspects of financial aid administration from the perspectives of both the business office and the financial aid office.

### ***Suggested Topics for Policies and Procedures Manual***

In addition to the required written policies listed at the beginning of this section, a comprehensive policies and procedures manual would include:

- an overview of the institution itself, its mission, its students, and its philosophies,
- descriptions of all federal, state, and institutional aid programs, including application procedures, award amounts, and eligibility requirements,
- descriptions of the organizational structures of the financial aid office and the business office,
- a statement of the institution's policy for awarding financial aid (commonly referred to as its "packaging policy"),
- procedures for processing financial aid applications,
- procedures used in record keeping and reporting,
- calendar of activities, including dates and deadlines for students,
- procedures for evaluating business office and financial aid office operations, and
- copies of forms, applications, standard correspondence, and other printed materials routinely used by the financial aid office and business office and/or distributed to students.

## 2.7 Evaluating Your Management of Student Financial Aid Programs

Schools should evaluate the way they administer Title IV programs on a regular basis. This is a priority for ED, as well as for the business-officer and financial-aid communities.

Evaluating Title IV administration serves many purposes, such as:

- ensuring that the school is complying with statutory and regulatory requirements, and
- identifying school policies and procedures that need updating or revision.

All schools that participate in Title IV financial aid programs must ensure that their student aid operations, procedures, and policies remain in compliance with statutory and regulatory requirements. Failure to do so may have serious consequences:

- *Institutional liabilities*—The school will be required to repay any misused funds to ED.
- *Inequitable student aid distribution*—Students at the school may be awarded less or more aid than they are entitled to receive.
- *Possible fines, limitation, suspension, or termination*—If audits and program reviews identify serious instances of noncompliance, inappropriate use of funds, or fraud, the school may be subject to emergency action by ED and may ultimately lose its eligibility for federal student aid programs.
- *Debarment*—Individuals found responsible for fraud or serious misuse of federal funds may be barred from involvement in any federal programs.

### **Evaluation Methods**

The primary methods for evaluating an institution's management of Title IV programs are:

- self-evaluation,
- peer evaluation, and
- ED's Quality Assurance Program (QAP).



### Reference:

- *Self-Evaluation Guide*  
NASFAA  
Washington, DC  
Tel: 202-785-0453  
Web site:  
[www.nasfaa.org](http://www.nasfaa.org)

### Self-Evaluation

Institutional self-evaluation provides a way of maintaining internal quality control and serves as an effective management tool. The process helps a school detect and correct small problems before they become potential sources of liability. Self-evaluation also helps the school prepare for future program reviews and audits. A self-evaluation might include:

- reviewing a representative sample of student files,
- reviewing written policies and procedures, and
- observing financial-aid activities, such as loan counseling sessions.

The *Self-Evaluation Guide*, published by the National Association of Student Financial Aid Administrators (NASFAA), can help schools develop comprehensive evaluation systems. This publication provides a step-by-step outline for reviewing financial aid and fiscal policies, procedures, and practices.

### Peer Evaluation

Peer evaluation is another technique for obtaining an independent, objective review of an institution's administration of Title IV programs. The peer evaluator can be a financial aid administrator or fiscal officer from another school or a financial aid consultant.

During a peer evaluation, the school obtains an objective assessment of its operation from someone at a similar institution. The person performing the evaluation also benefits by getting a first-hand look at how another school manages financial aid programs. Comparing notes and exchanging ideas are methods by which colleagues in financial aid offices and business offices can share their expertise for the good of all.

### Quality Assurance Program

The Quality Assurance Program (QAP) is an ED initiative to promote quality in administering Title IV programs. Participating institutions implement a formal quality assurance program that includes a management self-assessment, annual measurement, and quality improvement components. This integrated approach to management embodies the principles of continuous improvement that ED regards as essential to quality assurance.

QAP takes a proactive approach by:

- focusing on preventing problems;

- improving existing procedures rather than penalizing institutions for errors and management;
- improving the institution's administration of the Title IV Programs; and
- assisting institutions in minimizing program errors.

Schools that participate in QAP are exempt from certain ED reporting and verification requirements if their institutional quality assurance measures duplicate these requirements.

Quality assurance (QA) is required for schools participating in the Direct Loan Program. ED assists these schools in conducting QA activities using tools such as the *Direct Loan Quality Assurance Planning Guide (QA Planning Guide)* and the QA module in EDEExpress.

- There are several measurement tools in the “Tools” submenu of EDEExpress. These measurement tools can be used by Direct Loan schools to measure and assess their operations in terms of volume and timeliness.

Direct Loan schools have to maintain documentation about their quality assurance activities in a QA master file. Although there is no QA reporting requirement, Direct Loan schools participating in QAP must complete a Title IV Management Assessment Worksheet to report results to ED using routine QAP reporting procedures.



**Reference:**

- HEA, Section 487A

Beginning with the 1999-2000 award year, QAP will include broader initiatives in awarding and disbursement, as well as exit and entrance counseling. The increased scope of the QAP will be a quality partnership that will serve all institutions participating in Title IV Program.

Schools that are interested in participating in QAP should contact ED's Performance and Accountability Improvement Branch (PAIB) at (202) 260-4788.

## 2.8 Refunds and Repayments

The Higher Education Amendments of 1998 changed the refund and repayment provisions. In addition to renaming the process “returning Title IV funds,” it also revised how to calculate the amount that needs to be returned to Title IV programs when a student does not complete an enrollment or payment period. The new requirements go into effect on October 7, 2000, although schools can choose to implement them before this date. Many schools appear to be continuing to operate under the pre-



1998 Higher Education Amendments' refund and repayment provisions. This edition of *The Blue Book* will discuss refund and repayment provisions in effect before October 7, 2000 and highlight the return of Title IV funds provisions that go into effect October 7, 2000. Regulations on returning Title IV funds will be issued on the completion of negotiated rulemaking.

If a school wishes to implement these provisions before October 7, 2000, it must:

- establish a specific date to implement the new provisions,
- implement all of the provisions, and
- apply the provisions to all students who
  - enter after the implementation date and
  - have been advised of the new policy.



**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*

### ***Overview of Refunds and Repayments***

When a student receives financial aid, the aid is intended to cover that period of enrollment for which the student is being charged. As a result, the school has special responsibilities if the student:

- officially withdraws,
- drops out,
- is expelled,
- takes an unapproved leave of absence, or
- fails to return from an approved leave of absence.

In all of these cases, the student does not complete the enrollment period for which he or she was charged. As a result, the student might have (or the student's account might be credited with) unearned aid. Whenever a student fails to complete the period of enrollment for which he or she was charged, an institution must determine:

- whether unearned aid credited to the student's account to cover institutional costs must be refunded to Title IV programs, other sources of aid, and/or the student and
- whether unearned aid (usually paid in cash to the student) to cover institutional costs must be repaid by the student and then returned to the sources of financial aid.



## General Definitions

A *refund* is the return of unearned aid (both Title IV and other sources of aid) that was originally credited to a student's institutional costs; any cash paid to the student is not involved in a refund calculation.

- The school must return the funds to Title IV programs first, other sources of aid second, and, if there are funds left, to the student third.

A *repayment* involves unearned aid (usually paid directly to the student as cash) to cover non-institutional costs.

- In this case, the student must return the unearned funds.
- Direct Loans or FFEL Program loans are not considered in repayment calculations. By signing the promissory note, the student has already agreed to repay the funds.

Federal Work-Study (FWS) funds that students earn for hours worked are not considered when calculating refunds and repayments. However, institutions are still required to perform the calculation for students whose only Title IV aid is FWS.

## Refunds

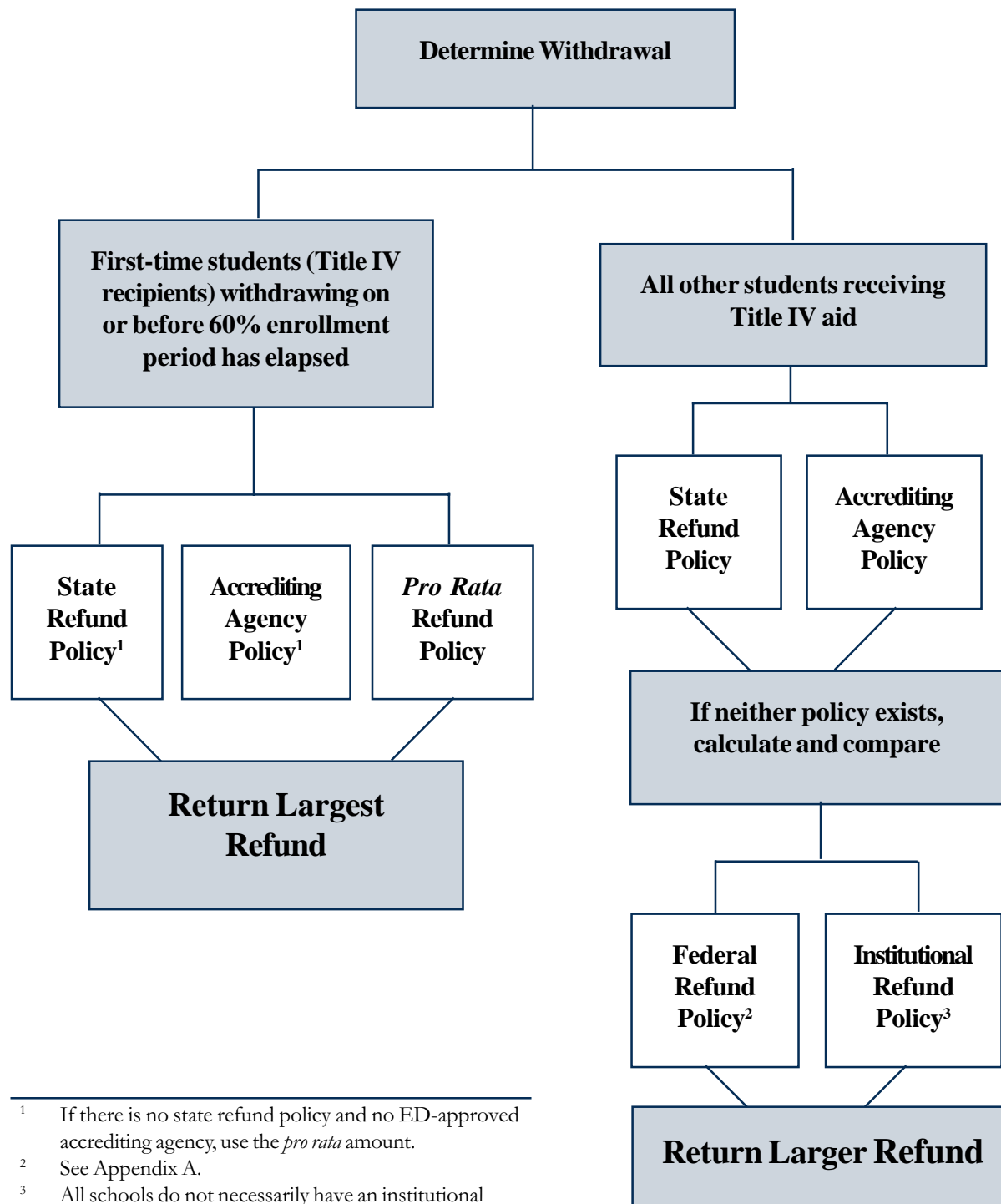
Under federal law, schools participating in any Title IV program are *required* to have, in writing, a “fair and equitable” refund policy. The flowchart on the next page shows the refund process and how the law defines it. A school satisfies this requirement of being “fair and equitable” by calculating all types of applicable refunds, then determining and using the largest amount.

An institution must provide Title IV recipients a refund of at least as much as the *largest* refund under the following three methods:

- the requirements of applicable state law or refund regulations promulgated by a state agency that were established through a legally enforceable regulatory process; *or*
- the specific refund requirements established by the school's nationally recognized accrediting agency *and* approved by the U.S. Secretary of Education\*; *or*
- if applicable, a statutory *pro rata* refund calculation as defined by the Higher Education Amendments of 1992. This applies to all students who withdraw on or before the 60 percent point of the enrollment period for which they were charged.

\*ED has not yet approved any accrediting agency refund policy.

# The Refund Process



To calculate a refund that is at least as much as the largest refund produced by the three methods just outlined, a school must:

- calculate the results of each refund method separately,
- compare the resulting amounts, and
- use the calculation that provides the largest refund.

In cases where the *pro rata* calculation does not apply, a refund must be the larger of the results of the other two methods, as determined by state law or the school's accrediting agency.

In cases where no state or accrediting agency standards exist and *pro rata* does not apply, the school must calculate a refund using the federal refund calculation outlined in the Student Assistance General Provisions and the school's own refund policy (if one exists). The school must use the calculation that produces the larger refund.

### Repayments

An institution must return repayments of \$100 or more of a Federal Perkins Loan, Federal Pell Grant, or FSEOG to the appropriate program account within 30 days of the date the student makes the repayment.

Although an institution is not liable for any part of a repayment that a student owes, the institution is responsible for:

- notifying and billing the student for the amount due and
- collecting the repayment.

Until the repayment is resolved:

- the student is ineligible for further Title IV assistance and
- the school must report the repayment owed on any financial aid transcript completed for the student or on any submission to NSLDS.

In addition, if the school is unable to collect an FSEOG or Federal Pell Grant repayment from the student, the school must refer the student to ED for collection.

Beginning October 7, 2000 or earlier if the school chooses to implement the new "Return of Funds" provision, the concept of refunds will change from "refund of unearned institutional charges" to "return of unearned Title IV aid."



**Reference:**

- HEA, Section 484B

If a recipient of Title IV aid withdraws before completing 60 percent of the payment period (or period of enrollment), the institution must calculate the amount of Title IV aid the student did not earn. The amount of unearned aid equals the difference between Title IV aid that was disbursed or could have been disbursed for the payment period and the amount of Title IV aid that was earned.

When schools return unearned Title IV aid, schools

- deal with Title IV aid only,
- apply provisions to all Title IV aid recipients except FWS recipients, and
- reduce institutional charges,

In addition, there are no comparisons with other policies, no issues of unpaid charges, and no impact on nonfederal aid.

### ***Factors Affecting Refund and Repayment***

Before schools can effectively develop or implement their refund policies, they must understand a number of factors that underlie those policies and that relate to applicable laws and regulations such as:

- institutional costs,
- noninstitutional costs,
- unpaid charges,
- applying and disbursing aid,
- withdrawal date, and
- leave of absence.

#### **Institutional Costs**

Unless demonstrated otherwise, institutional costs are charges owed directly to the school for tuition, fees, room and board contracted with the school, and other charges assessed by the school.

An institutional cost does not have to be charged to all students or be listed as a charge in an enrollment agreement to be classified as an institutional cost. Other charges may be considered institutional charges if they are required for all students in a given program of study and if they are disclosed as such in the school's published consumer information.



**Reference:**

- *The Student Financial Aid Handbook: Institutional Eligibility and Participation*
- *Policy Bulletin, Calculating Institutional Refunds: What are Institutional Charges?*, January 7, 1999

**Reference:**

- *The Student Financial Aid Handbook: Institutional Eligibility and Participation*
- *Policy Bulletin, Calculating Institutional Refunds: What are Institutional Charges?*, January 7, 1999

Books, supplies, and equipment are considered institutional charges if there is no real and reasonable opportunity to buy the books, supplies, or equipment from a source other than the institution.

### Non-Institutional Costs

Non-institutional costs are those that are not owed directly to the school but are related to a student's education. Non-institutional costs include:

- room and board charges not contracted with the institution;
- charges for any required course materials that an institution can document are non-institutional because the student had a real and reasonable opportunity to purchase them elsewhere;
- a charge to a student's account for room charges that are collected by the institution, but are "passed through" to an unaffiliated entity;
- a charge to a student's account for group health insurance fees, if the insurance is required for all students and the coverage remains in effect for the entire period for which the student was charged, despite the student's withdrawal; *and*
- a charge to a student's account for discretionally, educationally related expenses such as
  - parking or library fines or
  - cost of athletic or concert tickets.

### Unpaid Charges

When calculating a refund, schools must first determine the student's unpaid charges.

$$\begin{array}{r}
 \text{Total Institutional Costs} \\
 - \text{Total Aid Paid to Institutional Costs} \\
 \text{Scheduled Cash Payment (SCP)} \\
 - \text{Student's Cash Paid} \\
 \hline
 = \text{Unpaid Charges}
 \end{array}$$

In calculating unpaid charges, schools must take into account any late Title IV funds for which the student is still eligible, such as an approved late disbursement of an FFEL Program loan or Federal Direct Loan. Any such late disbursements should be counted toward aid paid to institutional costs.

**Reference:**

- *The Student Financial Aid Handbook: Institutional Eligibility and Participation*

### Applying and Disbursing Aid

Although schools may use whatever funds they receive first to pay outstanding direct costs, such as tuition, ED recommends that schools apply financial aid first to cover institutional costs.

- Schools generally do not wait to receive specific funds at their institutions to satisfy specific categories of direct costs.

This practice ensures that federal funds are used first to pay direct costs before funds are released to students for indirect costs, such as books and transportation. ED also recommends that schools develop written policies for applying financial aid to charges owed the school. Schools may wish to design a priority system that specifies the sources and types of aid that should first be applied to certain charges.\*

- For example, a school might determine that grant funds (gift aid) from all sources would be used first to pay tuition, fees, and room and board owed the school. After all grant funds had been used, loans (self-help aid) would be credited to remaining charges for tuition, fees, and room and board. Any unused loan funds would be disbursed to the student as cash for other educationally related expenses.

*\*Schools must obtain students' written permission to credit their accounts for anything other than tuition, fees, and room and board contracted with the school.*

If financial aid credited to charges owed to the school is not sufficient to cover the charges, the student will still owe the school money. If the aid credited exceeds charges owed, the student (or parent, in the case of a PLUS Loan) will be due a cash disbursement in the form of cash or a check. Funds may be held in a student's account only with the student's written permission and only under certain circumstances. An institution must record which types of aid have been applied to institutional costs and which types were included in any cash disbursement. Such record keeping is essential for calculating Title IV refunds and repayments.

### Withdrawal Date

Schools must determine a student's withdrawal date no later than 30 days after the expiration of the earliest of:

- the academic year in which the student withdrew,
- the period of enrollment for which the student has been charged, *or*



#### **Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*

- the educational program from which the student withdrew.

The student's withdrawal date is:

- *for official withdrawal*—either the date that the student officially notifies the school that he or she is withdrawing or the date of the withdrawal specified by the student, whichever is later, *or*
- *for unofficial withdrawal*—the last date of class attendance that the school can document.

For correspondence courses, the date of withdrawal is the date of the last lesson submitted by the student. If the student establishes, in writing, the desire to continue in the program within 60 days of the date of the last submitted lesson, the school may restore “in-school” status on a one-time-only basis.



**Reference:**

- HEA, Section 484B

Beginning October 7, 2000, or earlier if the school chooses to implement the new “Return of Funds” provision, the definition of withdrawal date will be replaced by the following:

- for institutions required to take attendance, the date of withdrawal is the last date of recorded attendance.
- for institutions not required to take attendance, the withdrawal date (determined by the school) is:
  - the date the student began the withdrawal process prescribed by the school;
  - the date that the student otherwise provided the school with official notification of the intent to withdraw; or
  - if a student unofficially withdraws, the midpoint of the payment period for which Title IV aid was disbursed or a later date documented by the institution.

*Special rule:* The institution may determine the appropriate withdrawal date if the student did not begin the withdrawal process or otherwise notify the institution of the intent to withdraw due to:

- illness,
- accident,
- grievous personal loss,
- other such circumstances beyond the student's control.



**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*



**Reference:**

- HEA, Section 484B

### Leave of absence

An approved leave of absence (LOA) is not considered a withdrawal. An LOA may be approved by the school if:

- the student requests the LOA in writing,
- the LOA does not exceed 60 days,
- the LOA does not involve additional charges to the student, and
- there is no more than one approved LOA for the student in any 12-month period.

Any LOA that does not meet the above criteria is considered a standard withdrawal, and a refund calculation must be performed.

If a student does not return after an approved LOA, the student is considered as having withdrawn. A refund calculation must be performed, using a withdrawal date that is the student's last recorded date of attendance before the beginning of the LOA. Any required refund must be paid within 30 days after the LOA expires.

Beginning October 7, 2000, or earlier if the school chooses to implement the new "Return of Funds" provision, an institution can grant a student LOA provided that:

- the student follows the school's procedures for requesting the LOA,
- the LOA does not exceed 180 days in length in any 12-month period; and
- the LOA does not involve additional charges to the student.

During the LOA, the student is not considered to have withdrawn and no refund calculation is required if:

- the institution has a formal LOA policy,
- the student followed the institution's policy in requesting an LOA, *and*
- the institution approved the request in accordance with its policy.

If a student does not return to the institution at the end of an approved LOA, the institution is required to calculate a refund based on the date the student withdrew.



**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*

## 2.9 Record Maintenance and Retention Requirements

Institutions participating in Title IV programs collect and generate a significant volume of program-related and student-related information on a yearly basis. Federal regulations specify which of these records must be maintained and the period of time for which they must be retained. These record maintenance and retention requirements are school-wide and include fiscal, financial aid, and general institutional records.

The importance of maintaining complete and consistent records cannot be overemphasized. These records are used to document a school's administrative capability and financial responsibility and are crucial in maintaining eligibility to participate in Title IV programs. As such, schools must make student financial aid program and general records available to auditors and representatives of ED at their request. Records that are poorly maintained or that are not readily available for review can lead to findings, exceptions, and liabilities in the course of an audit or program review.

This section describes the record-keeping requirements contained in ED regulations. A discussion of the Family Educational Rights and Privacy Act (FERPA) is also included. FERPA is an important law that protects the privacy of students and families by controlling disclosure of student records to parties outside the institution and by allowing students access to their own school records.

### **General Student Records**

Schools must establish, maintain, and keep current certain records pertaining to Title IV recipients. For each student receiving Title IV funds, a school must keep records of:

- the student's admission and enrollment status at the institution,
- the program of study and the courses in which the student has enrolled,
- the student's academic progress,
- all financial aid the student receives at the institution,
- the student's prior receipt of financial aid at other institutions, if applicable,
- all refunds due or paid to the student, Title IV programs, or FFEL Program lenders,

- the student's job placement (if the school provides a placement service and the student uses that service), and
- verification of information reported on the student's financial aid application.

For *all* students, not just Title IV recipients, the school must keep records about its admission requirements and the educational qualifications of each student admitted to or enrolled in each eligible program.

Schools must also keep records relating to student consumer-information requirements and to requirements under the Student Right-To-Know Act (SRK) and Campus Security Act.

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*

***General Institutional Records***

Schools must maintain all records that relate generally to the institution's eligibility to participate in Title IV programs. Examples include:

- the institution's Program Participation Agreement with ED;
- accrediting and licensing agency reviews, approvals, and reports;
- state agency reports;
- audit and program review reports; and
- self-evaluation reports.

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.24(b)

***General Fiscal Records***

A school must keep consistent and accurate records of its use of Title IV funds. Program and fiscal records must show a clear (easily followed) audit trail for expenditures of federal funds. Similarly, these records must clearly show that funds were obtained, managed, disbursed, and returned in accordance with federal regulations. Fiscal records that must be maintained include:

- records of all Title IV program transactions,
- bank statements for accounts containing Title IV funds,
- student accounts, including (for each enrollment period) institutional charges, cash payments, Title IV payments, cash disbursements, refunds, and repayments,
- general ledger (control accounts) and related subsidiary ledgers that identify each program transaction and separate those transactions from the institution's other financial transactions,

**Reference:**

- 34 CFR 668.24(c)

**\*Schools have to provide auditors or program reviewers with records of the notifications to students of their financial aid awards.**

- Federal Work-Study (FWS) payroll records, and
- records that support data that appear on required reports.

Specific fiscal record-keeping requirements for each Title IV program are discussed in that program's regulations.

### ***Financial Aid Application and Award Records***

Schools are required to keep extensive records involving student applications for financial aid and financial aid awards. Required records include:

- student applications for financial aid and need analysis documents for all eligible aid applicants who attended the school, *whether or not they received any financial aid*,
- documents establishing a student's financial need and eligibility for Title IV aid,
- financial aid awards made to and accepted or declined by students,\*
- cost of attendance information for individual students,
- verification documents, including student (and spouse, if applicable) and parent federal tax returns,
- records of FFEL Program loans and Federal Direct Loans,
- documentation of required entrance and exit loan counseling for students borrowing under the FFEL, Federal Direct Loan, and Federal Perkins Loan Programs,
- data used to establish a student's full-time or part-time enrollment status and period(s) of enrollment,
- records of refunds due or paid to students, Title IV program accounts, or FFEL Program lenders, and
- required certification statements and any documents used to support or verify those certifications.

### ***Reporting Records***

Schools must maintain reports or copies of reports submitted or received in connection with administering Title IV programs, including—

- Fiscal Operations Report and Application to Participate (FISAP),

**\*A school is required to keep all student records that pertain to an audit or program review findings in case any finding is still pending.**



**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.24(a)



**Reference:**

- 34 CFR 668.24
- 34 CFR 690.82

**\*\*The ISIR must be maintained in the format in which it was originally received from ED.**

- Federal Pell Grant Program Electronic Statements of Account (ESOsAs),
- ED's Payment Management System cash requests and quarterly or monthly reports,
- Grant Administration and Payment System (GAPS) cash requests,
- reconciliation reports for Title IV programs,
- federal, state, and independent audit reports and school responses,\*
- state grant and scholarship award rosters and reports, and
- accrediting and licensing agency reports.

In addition, schools must maintain records that support the data that appear on all required reports.

### ***Program Records***

Schools must also keep records that relate specifically to each Title IV program, including—

- records of its eligibility to participate in the Title IV programs,
- records of the eligibility of its educational programs for Title IV funds,
- records of its administration of Title IV program according to all applicable requirements,
- records of its financial responsibility,
- records of information included in any application for Title IV funds, and
- records of its disbursement and delivery of Title IV funds.

### **Federal Pell Grant Program**

For the Federal Pell Grant Program, schools must maintain:

- a valid Institutional Student Information Record (ISIR) or Student Aid Report (SAR) of each student applying for a Federal Pell Grant,
- records of the eligibility of each enrolled student for whom the school has an ISIR\*\* or SAR,

- the name and Social Security number of and the amount paid to each student,
- the amount and date of each payment,
- the amount and date of any overpayment that is restored to the program account,
- each student's cost of attendance,
- how each student's full-time or part-time enrollment status was determined, and
- records of each student's enrollment period.

**Reference:**

- 34 CFR 676.19

**FSEOG Program**

For the Federal Supplemental Educational Opportunity Grant (FSEOG) Program, schools must maintain:

- program records that are reconciled at least monthly,
- each student's account and status,
- the eligibility of each student assisted under the program and how each student's need was met,
- all FSEOG applications for those students reported on the FISAP,
- all records supporting the school's application for FSEOG funds, and
- a noncash-contribution record to document payment of the institution's share of grants to students.

**Reference:**

- 34 CFR 674.19

**Federal Perkins Loan Program**

For the Federal Perkins Loan Program, schools must maintain:

- program and fiscal records that are reconciled at least monthly,
- each student's account and status,
- the eligibility of each student assisted under the program and how each student's need was met,
- original promissory notes and repayment schedules in a locked, fireproof container until the loans are satisfied or until they are assigned to ED for collection or as long as the documents are needed to enforce the loan obligation,

- all loan applications for those students reported on the FISAP,
- all records supporting the school's application for funds under the Federal Perkins Loan Program,
- a repayment history for each borrower that shows the date and amount of each repayment over the life of the loan and that indicates the amount of each repayment credited to principal, interest, collection costs, and penalty or late charges,
- documentation of the date, nature, and result of each contact with the borrower or endorser in collection of an overdue loan, including copies of all correspondence to or from the borrower and endorser (except bills, routine overdue notices, and routine form letters),
- payment records (including cancellation and deferment requests),
- collection agency reports,
- litigation records (if litigation occurred), and
- information collected at entrance and exit loan counseling conducted for the borrower.

**Reference:**

- 34 CFR 675.19

**Federal Work-Study**

For the Federal Work-Study (FWS) Program, schools must maintain:

- program records that:
  - are reconciled at least monthly,
  - identify each student's account and status,
  - show the eligibility of each student assisted under the program, and
  - show how each student's need was met,
- all employment applications for those students reported on the FISAP,
- all records supporting the school's application for FWS funds,
- a certification that each student has worked and earned the amount paid, signed by the student's supervisor, an official of the institution, or off-campus employer,

**Reference:**

- 34 CFR 682.610

- for students paid on an hourly basis, a time sheet showing the hours each student worked in clock-time sequence or the total hours worked each day,
- a payroll voucher containing sufficient information to support all payroll disbursements, and
- a noncash-contribution record to document any payment of the institution's share of the student's earnings in the form of services and equipment.

**Federal Family Education Loan Program**

For the Federal Family Education Loan (FFEL) Program, schools must maintain:

- a copy of the loan application or data electronically submitted to the lender,
- the name and address of the lender,
- the amount of the loan and the loan period,
- the data used to construct an individual student's budget or the school's itemized standard budget used to calculate students' estimated costs of attendance,
- the sources and amounts of financial aid available to the student that the school used to determine the student's estimated financial aid for the loan period,
- the amount of the student's tuition and fees paid for the loan period and the date the student paid the tuition and fees,
- the amount and basis of the calculation of any refund paid to or on behalf of a student,
- for a subsidized Federal Stafford Loan for which the borrower receives an interest subsidy, the data used to determine the student's Expected Family Contribution (EFC) and the corresponding certification by the school to the lender,
- the date of each disbursement of the loan and the amount of that disbursement,
- the date the school endorsed each loan check,
- the date(s) loan proceeds were delivered by the school to the student,

**Reference:**

- 34 CFR 685.309

- for loans delivered by electronic funds transfer (EFT) or master check and the school has no authorization on the loan application, the school must retain a copy of the student's written authorization for initial and subsequent disbursements,
- documentation that the student received entrance and exit loan counseling, and
- litigation records (if litigation occurred).

In addition, schools must maintain any other records that document their compliance with any applicable loan-related requirements.

### Federal Direct Loan Program

For the Federal Direct Loan Program, schools must maintain a copy of the application data submitted to ED and, on request, produce a record of:

- the amount of the loan and the loan period,
- the amount and date of tuition and fees paid for the loan period,
- the data in an individual student budget or the school's itemized standard budget that were used in calculating the student's estimated cost of attendance,
- the sources and amounts of financial aid available to the student that the school used to determine the student's estimated financial aid for the loan period,
- the cost of attendance used to determine the student's loan,
- the amount and basis of the calculation of any refund paid to or on behalf of a student,
- for a subsidized Direct Loan, the data used to determine the student's EFC,
- for a subsidized or unsubsidized Direct Loan, the date of each disbursement of the loan,
- the date of each disbursement of the loan and the amount of the disbursement,
- the borrower's information collected at the exit interview and documentation that confirms that the student received entrance and exit loan counseling,
- all record involved in any loan, claim, or expenditure questioned by a federal audit until the resolution of any audit questions,



- program records that are reconciled at least monthly,
- each student's account and status, and
- the eligibility of each student assisted under the program and how each student's need was met.

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.24(e)

**Record-Retention Requirements**

Schools must retain all required records for a minimum of three years.

However, the starting point is not the same for all records. The table below describes the required minimum retention period for records under various Title IV programs. In addition, some states require schools to retain such records for longer periods.

## Minimum Record-Retention Periods

Title IV Program					
	End of the award year in which the report was submitted	End of the award year for which the aid was awarded	End of the award year in which the student last attended	The loan is satisfied or the documents are needed to enforce the obligation	The date on which a loan is assigned to ED, cancelled, or repaid
<b>Campus-Based and Pell Grant</b>		3 Years			
Except:					
• Fiscal Operations Report and Application to Participate (FISAP) and supporting records	3 Years				
• Perkins repayment records					3 Years
• Perkins original promissory notes and repayment schedules				Until	
<b>FFEL and Direct Loans</b>					
• Records related to borrower's eligibility and participation			3 Years		
• All other records, including any other reports or forms	3 Years				



### Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.24(d)

## Record Maintenance

A school must maintain all required records in a systematically organized manner. Unless a specific format is required, a school may keep required records in hard copy, microform, computer file, optical disk, CD-ROM, or other media form.

Regardless of the format used to keep a record, all records (except ISIRs) must be retrievable in a coherent hard copy format.

- A coherent hard copy format includes, for example, an easily understandable print out of a computer file.

Any document that contains a signature, seal, certification, or any other image or mark required to validate the authenticity of its information must be maintained in its original hard copy or in an imaged media format.

- A school may maintain a record in an imaged media format only if the format is capable of reproducing an accurate, legible, and complete copy of the original document. When printed, the copy must be approximately the same size as the original document.

## Special Requirements

Special maintenance and availability requirements apply to SARs and ISIRs because it is essential that these basic eligibility records be available in a consistent, comprehensive, and verifiable format for program review and audit purposes.

- The SAR must be available in its original hard copy format or in an imaged media format.
- The ISIR, an electronic record, must be maintained and available in its original format\*, that is, as it was supplied by ED to the school.

A school that uses EDEExpress software has the ability to maintain the ISIR data that it has maintained during the award year by archiving the data to a disk or other computer format.



### Reference:

- 34 CFR 668.24(d)(3)(ii)

**\*The original format is in the form of a magnetic tape, cartridge, or as it was archived using EDEExpress software.**

## Records Examination

Schools must make their records available to ED at an institutional location that ED designates. These records must be readily available for review, including any records of transactions between a school and the financial institution where the school deposits its Title IV funds.

A school and its third-party servicer must cooperate with the agencies or individuals conducting audits, program reviews, investigations, or other



### Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.24(f)

reviews authorized by law. This cooperation must be extended to the following individuals and their authorized representatives:

- independent auditors,
- the U.S. Secretary of Education,
- ED's Inspector General,
- the Comptroller General of the United States,
- any guaranty agency in whose program the school participates, and
- the school's accrediting agency.

A school or its third-party servicer in the review process must cooperate by providing timely access to requested records, pertinent books, documents, papers, or computer programs for examination and copying.

A school or its third-party servicer must also provide reasonable access to all personnel associated with the school's or servicer's administration of federal student financial aid programs so that any of the agents listed above may obtain relevant information. A school or its third-party servicer has not provided reasonable access if it:

- refuses to allow personnel to supply all relevant information,
- permits interviews with those personnel only if the school's or servicer's management is present, *or*
- permits interviews with those personnel only if the interviews are tape recorded by the school or servicer.

If ED requests it, a school or its third-party servicer must promptly provide any information about the last known address, full name, telephone number, enrollment information, employer, and employer address of Title IV fund recipients who attend or attended the school. A school must also provide this information, on request, to a lender or guaranty agency in the case of a borrower under the FFEL Program.



**Reference:**

- 34 CFR 668.24(d)(4)(i)  
(ii)

A school must still maintain required records, if the school:

- stops providing educational programs,
- is terminated or suspended from participating in a Title IV program(s),

- undergoes a change of ownership that results in a change in control, or
- closes.

These records must be accessible for inspection and copying by the Secretary or the Secretary's authorized representative *and* the appropriate guaranty agency (if applicable).

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*

**Reference:**

- 34 CFR Part 99

### ***Disclosing Student Information***

The Family Education Rights and Privacy Act of 1974 (FERPA) sets certain conditions on disclosure of personal information from records kept by schools participating in Title IV programs. The law pertains to all students attending these schools, not just Title IV recipients. In addition, federal regulations issued under FERPA apply to all school records, including admissions records, academic records, and financial aid records.

FERPA excludes from the definition of “education records” (and from the restrictions and rights of access under FERPA) records that are maintained by a law enforcement unit of an education agency or institution that were created by that unit for the purpose of law enforcement.

### **School Requirements**

Under FERPA, a school is required to:

- develop a written policy listing the types and locations of education records maintained by the school and stating the procedures for students and parents to review the records,
- notify students and parents of their rights with respect to education records, and
- document the student's file each time personally identifiable information is disclosed to a person other than the student.

### **Student Rights**

A student has the right to:

- inspect and review his or her education records,
- request an amendment to the records, and

**Reference:**

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*

- if the request for an amendment is denied, to request a hearing to challenge the contents of the education records on the grounds that the records are inaccurate, misleading, or violate the student's rights.

### Disclosure to Third Parties

FERPA regulations also govern the disclosure of student information to parties other than the student. There are several conditions under which personally identifiable information may be disclosed without the student's prior written consent. Some of these conditions are of interest to the fiscal officer:

- Disclosure may be made to authorized representatives of ED, ED's Office of Inspector General, or state and local education authorities. These officials may have access to records as part of an audit or program review or to ensure compliance with Title IV program requirements.
- Disclosure may be made if it is in connection with financial aid that the student received or applied for. Information may only be released if it is needed to determine the amount of the aid, the conditions for the aid, the student's eligibility for the aid, or to enforce the terms or conditions of the aid.
- Disclosure may be made to the student's parent, if the student is a dependent of the parent as defined by the Internal Revenue Service.
- Disclosure may be made to organizations that are conducting studies concerning administration of student aid programs on behalf of educational agencies or institutions.

### Recording Disclosures

Schools are required to keep a record of each request for access and each disclosure of personally identifiable student information. The record must identify the parties who requested the information and their legitimate interest in the information. This disclosure record must be maintained as long as the records themselves are maintained.

### ***Record Management Procedures***

It is essential that schools maintain records related to Title IV programs in an organized manner. Good record-management procedures assist institutions in carrying out daily functions associated with administering Title IV funds, filing required reports in an accurate and timely manner, and maintaining a clear audit trail.

One important aspect of record management is careful and orderly filing of original records. Many schools establish individual, cumulative student aid files, separating documents within each student's file on the basis of award year.

### Clear Audit Trail

Although it is important to keep original records used in processing financial aid, schools must also have a record-keeping system that traces transactions involving those records. A school's record-keeping procedures should allow for establishing and maintaining a clear (easily followed) audit trail. A clear audit trail is defined as maintaining required documentation that supports each transaction involving receiving or expending federal funds.

A school may maintain records in a manual, paper-based system or in a computer database, or it may use a combination of these methods. For example, a school that uses an automated system to manage records might also maintain paper files that contain original documents needed to support the electronic information stored in a database. As imaging technology becomes more available, schools might choose to maintain electronically imaged documents in lieu of paper originals.

### In-House Control Documents

The in-house control documents a school uses to manage records can vary on the basis of institutional policies and procedures. Some commonly used control documents, whether paper or electronic, include:

- a communication log that summarizes all in-person or telephone contacts with a student or about a student's financial aid;
- a document control checklist that monitors documents received against documents needed to process a student's financial aid;
- an award packaging log that shows how and when a student's award was packaged and by whom;
- a loan status log for each federal student loan program that tracks loan applications, disbursements, entrance and exit loan counseling, refunds, repayments, and collection activities (if applicable); and
- a student master record that contains financial aid information for a student for each award year.

### Student Master Record

A student master record is used to record basic information relating to a student's application for and receipt of financial aid. The student master record typically contains:

- demographic information, such as name, address, date of birth, and citizenship status;
- enrollment information, such as admission status, enrollment dates, credits attempted and completed, and grade point average;
- need analysis information, such as Expected Family Contribution (EFC), family income, and cost of attendance (COA);
- award information, such as amounts and sources of funds awarded and whether awards were accepted or declined; and
- student account information, such as tuition and fee charges assessed, cash payments made by a student or parent, financial aid disbursements, and refunds and repayments.

## Appendix F—Ratio Methodology for Proprietary Institutions

### Section 1: Ratios and Ratio Terms

$$\text{Primary Reserve Ratio} = \frac{\text{Adjusted Equity}}{\text{Total Expenses}}$$

$$\text{Equity Ratio} = \frac{\text{Modified Equity}}{\text{Modified Assets}}$$

$$\text{Net Income Ratio} = \frac{\text{Income Before Taxes}}{\text{Total Revenues}}$$

#### Definitions:

- **Adjusted Equity** = (total owner's equity) – (intangible assets) – (unsecured related-party receivables) – (net property, plant, and equipment)\* + (post-employment and retirement liabilities) + (all debt obtained for long-term purposes)\*\*
  - **Total Expenses** excludes income tax, discontinued operations, extraordinary losses, or change in accounting principle.
  - **Modified Equity** = (total owner's equity) – (intangible assets) – (unsecured related-party receivables)
  - **Modified Assets** = (total assets) – (intangible assets) – (unsecured related-party receivables)
  - **Income Before Taxes** is taken directly from the audited financial statement.
  - **Total Pre-Tax Revenues** = (total operating revenues) + (non-operating revenue and gains) Investment gains should be recorded net of investment losses. No revenues shown after income taxes (e.g., discontinued operations, extraordinary gains, or change in accounting principle) on the income statement should be excluded.
- \* The value of plant, property, and equipment is net of accumulated depreciation, including capitalized lease assets.
- \*\* The value of all debt obtained for long-term purposes includes the short-term portion of the debt, up to the amount of net property, plant, and equipment.

Source: 34 CFR 668 Subpart K. Added November 25, 1997, effective July 1, 1998.



## Appendix F—Ratio Methodology for Proprietary Institutions

### Section 2, Calculating the Ratios from the Balance Sheet and Income Statement

#### Balance Sheet

Line		
1	Cash	\$ 190,000
2	Accounts Receivable	1,010,000
3	Prepaid Expenses	150,000
4	Inventoried	130,000
5	Note Receivable from Affiliate	200,000
6	Investments	330,000
7	<b>Total Current Assets</b>	<b>2,010,000</b>
8	Property and Equipment, net	500,000
9	Amount Due from Owner	170,000
10	Goodwill	80,000
11	Organization Costs	70,000
12	Deposits	60,000
13	<b>Total Assets</b>	<b>2,890,000</b>
14	Accounts Payable	200,000
15	Accrued Expenses	330,000
16	Current Portion of Long-Term Debt	120,000
17	Deferred Revenue	650,000
18	<b>Total Current Liabilities</b>	<b>1,300,000</b>
19	Long-Term Debt, net of Current Portion	330,000
20	<b>Total Liabilities</b>	<b>1,630,000</b>
21	Contributed Capital	440,000
22	Retained Earnings	820,000
23	<b>Total Owner's Equity</b>	<b>1,260,000</b>
24	<b>Total Liabilities and Owner's Equity</b>	<b>2,890,000</b>

#### Statement of Income and Retained Earnings

Line		
25	Operating Income	\$ 9,700,000
26	Non-Operating Income	300,000
27	<b>Total Income</b>	<b>10,000,000</b>
28	Cost of Goods Sold	6,800,000
29	Administrative Expenses	2,600,000
30	Depreciation Expense	60,000
31	Interest Expense	40,000
32	<b>Total Expenses</b>	<b>9,500,000</b>
33	Other: Gain on Sale of Investments	10,000
34	<b>Net Income Before Taxes</b>	<b>510,000</b>
35	Federal Income Taxes	153,000
36	<b>Net Income After Taxes</b>	<b>357,000</b>
37	Extraordinary Loss, net of Tax	800,000
38	<b>Net Income</b>	<b>(443,000)</b>
39	Retained Earnings, Beginning of year	1,263,000
22	<b>Total Expenses</b>	<b>820,000</b>

$$\text{Primary Reserve Ratio} = \frac{(\text{lines } 23-5-9-10-8+(16+19))^*}{32} = \frac{\$ 760,000}{\$9,500,000} = 0.080$$

$$\text{Equity Ratio} = \frac{(\text{lines } 23-5-9-10)}{13-5-9-10} = \frac{\$ 810,000}{\$2,440,000} = 0.332$$

$$\text{Net Income Ratio} = \frac{(\text{lines } 34)}{27+33} = \frac{\$ 510,000}{\$10,010,000} = 0.051$$

\* Long-Term Debt (lines 16 + 19) cannot exceed Property and Equipment (line 8) in the formula.

Source: 34 CFR 668 Subpart K. Added November 25, 1997, effective July 1, 1998.

## Appendix F—Ratio Methodology for Proprietary Institutions

### Section 3: Calculating the Composite Score

**Step 1: Calculate the strength factor score for each ratio, by using the following algorithms:**

**Example (for Proprietary Institutions)**

•Primary Reserve strength factor score =  $20 \times$  Primary Reserve ratio result:

$$20 \times 0.080 = 1.600$$

•Equity strength factor score =  $6 \times$  Equity ratio result:

$$6 \times 0.332 = 1.992$$

•Net Income strength factor score =  $1 + (33.3 \times \text{Net Income ratio result})$ :

$$1 + (33.3 \times 0.051) = 2.698$$

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for that ratio is 3. If the strength factor score for any ratio is less than or equal to -1, the strength factor score is that ratio is -1.

**Step 2: Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores.**

**Example (for Proprietary Institutions)**

•Primary Reserve weighted score =  $30\% \times$  Primary Reserve strength factor score:

$$0.30 \times 1.600 = 0.480$$

•Equity weighted score =  $40\% \times$  Equity strength factor score:

$$0.40 \times 1.992 = 0.797$$

•Net Income weighted score =  $30\% \times$  Net Income strength factor score:

$$0.30 \times 2.698 = 0.809$$

•Composite score = sum of all weighted scores:

$$0.480 + 0.797 + 0.809 = 2.086$$

•Round the composite score to one digit after the decimal point to determine the final score:

$$2.1$$

\* The symbol “ $\times$ ” denotes multiplication.

Source: 34 CFR 668 Subpart K. Added November 25, 1997, effective July 1, 1998.

## Appendix G—Ratio Methodology for Private Non-Profit Institutions

### Section 1: Ratios and Ratio Terms

$$\begin{aligned} \text{Primary Reserve Ratio} &= \frac{\text{Expendable Net Assets}}{\text{Total Expenses}} \\ \text{Equity Ratio} &= \frac{\text{Modified Net Assets}}{\text{Modified Assets}} \\ \text{Net Income Ratio} &= \frac{\text{Change in Unrestricted Net Assets}}{\text{Total Unrestricted Revenue}} \end{aligned}$$

#### Definitions:

- **Expendable Net Assets** = (unrestricted net assets) + (temporarily restricted net assets) – (annuities, term endowments, and life income funds that are temporarily restricted) - (intangible assets) - (net property, plant, and equipment)\* + (post-employment and retirement liabilities) + (all debt obtained for long-term purposes)\*\*
  - **Total Expenses** is the total unrestricted expenses taken directly from the audited financial statement.
  - **Modified Net Assets** = (unrestricted net assets) + (temporarily restricted net assets) + permanently restricted net assets) - (intangible assets) - (unsecured related-party receivables)
  - **Modified Assets** = (total assets) – (intangible assets) – (unsecured related-party receivables)
  - **Change in Unrestricted Net Assets** is taken directly from the audited financial statement.
  - **Total Unrestricted Revenue** is taken directly from the audited financial statement. (This amount includes net assets released from restriction during the fiscal year.
- \* The value of plant, property, and equipment is the net of accumulated depreciation, including capitalized lease assets.
- \*\* The value of all debt obtained for long-term purposes includes the short-term portion of the debt, up to the amount of net property, plant, and equipment.

Source: 34 CFR 668 Subpart K. Added November 25, 1997, effective July 1, 1998.

## Section 2, Calculating the Ratios from the Balance Sheet and Statement of Activities

## Balance Sheet

Line		
1	Cash and Cash Equivalents	\$ 1,000,000
2	Accounts Receivable	6,000,000
3	Prepaid Expenses	1,500,000
4	Inventories	500,000
5	Contributions Receivable	2,000,000
6	Student Loans Receivable	8,000,000
7	Investments	6,000,000
8	Property and Equipment, net	50,000,000
9	Bond Insurance Costs	720,000
10	Goodwill	500,000
11	Deposits	20,000
12	<b>Total Assets</b>	76,240,000
13	Line of Credit	500,000
14	Accounts Payable	2,000,000
15	Accrued Expenses	3,500,000
16	Deferred Revenue	650,000
17	Post-Retirement Benefits Liability	6,600,000
18	Bonds Payable	36,000,000
19	<b>Total Liabilities</b>	49,250,00
20	<b>Unrestricted Net Assets</b>	15,190,000
21	Annuities	300,000
22	John Doe Scholarship Fund	2,500,000
23	<b>Total Temp. Restricted Net Assets</b>	2,800,000
24	<b>Permanent Restr. Net Assets</b>	9,000,000
25	<b>Total Net Assets</b>	26,990,000
26	<b>Total Liabilities &amp; Net Assets</b>	76,240,000

## Statement of Activities

(column:

a

b

c

d)

Line		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
27	Tuition and Fees	\$45,000,000			\$45,000,000
28	Contributions	1,200,000	\$300,000	\$120,000	1,620,000
29	Auxiliary Enterprises	5,500,000			5,500,000
30	Net Assets Released from Restrictions	200,000			200,000
31	<b>Total Revenue</b>	51,900,000	300,000	120,000	52,320,000
32	Operating Expenses	38,000,000			38,000,000
33	Depreciation	5,000,000			5,000,000
34	Interest Expense	2,880,000			2,880,000
35	Auxiliary Enterprise	5,200,00			5,200,000
36	Non-Operating Expenses	900,000			900,000
37	Net Assets Released from Restrictions		200,000	----	200,000
38	<b>Total Expenses</b>	51,980,000	200,000	----	52,180,000
39	<b>Change in Net Assets</b>	(80,000)*	100,000	120,000	140,000
40	Net Assets at beginning of year	15,270,000	2,700,000	8,880,000	26,850,000
41	Net Assets at end of year	15,190,000	2,800,000	9,000,000	26,990,000

$$\text{Primary Reserve Ratio} = (\text{lines } 20+23-21-10-8+18^{**}+17) \frac{\$9,790,000}{\$51,980,000} = 0.188$$

$$\text{Equity Ratio} = (\text{lines } 25-10) \frac{\$26,490,000}{\$75,740,000} = 0.350$$

$$\text{Net Income Ratio} = (\text{lines } 39 \text{ a}) \frac{\$ (80,000)}{\$51,900,000} = (0.0015)$$

\* In accounting statements, parenthesis denote negative numbers (i.e., (80,000) equals negative 80,000).

\*\* Long-Term Debt (line 18) cannot exceed Property and Equipment, net (line 8) in this formula.

## Appendix G—Ratio Methodology for Private Non-Profit Institutions

### Section 3: Calculating the Composite Score

**Step 1: Calculate the strength factor score for each ratio, by using the following algorithms:**

**Example (for Private Non-Profit Institutions)**

•Primary Reserve strength factor score =  $10 \times$  Primary Reserve ratio result:

$$10 \times 0.188 = 1.880$$

•Equity strength factor score =  $6 \times$  Equity ratio result:

$$6 \times 0.350 = 2.100$$

•Because the Net Income ratio is negative, the algorithm for negative net income is used—Net Income strength factor score =  $1 + (25 \times \text{Net Income ratio result})$ :

$$1 + (25 \times -0.0015) = 0.963$$

(Note: If the Net Income ratio result is positive, the following algorithm is used, Net Income strength factor score =  $1 + (50 + \text{Net Income ratio result})$ —If the Net Income ratio result is 0, the Net Income strength factor score is 1).

If the strength factor score for any ratio is greater than or equal to 3, the strength factor score for that ratio is 3. If the strength factor score for any ratio is less than or equal to -1, the strength factor score for that ratio is -1.

**Step 2: Calculate the weighted score for each ratio and calculate the composite score by adding the three weighted scores.**

**Example (for Private Non-Profit Institutions)**

•Primary Reserve weighted score =  $40\% \times$  Primary Reserve strength factor score:

$$0.40 \times 1.880 = 0.752$$

•Equity weighted score =  $40\% \times$  Equity strength factor score:

$$0.40 \times 2.100 = 0.840$$

•Net Income weighted score =  $20\% \times$  Net Income strength factor score:

$$0.20 \times 0.963 = 0.193$$

•Composite score = sum of all weighted scores:

$$.752 + 0.840 + 0.193 = 1.785$$

•Round the composite score to one digit after the decimal point to determine the final score:

$$1.8$$

\* The symbol “x” denotes multiplication.

Source: 34 CFR 668 Subpart K. Added November 25, 1997, effective July 1, 1998.